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SMALL BUSINESS SUBCONTRACTING PROGRAM
(Part 3)

HEARING

BEFORE THE

SUBCOMMITTEE ON SBA AND SBIC AUTHORITY MINORITY ENTERPRISE AND GENERAL SMALL BUSINESS PROBLEMS

OF THE

COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

WASHINGTON, DC, APRIL 25, 1984

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SMALL BUSINESS SUBCONTRACTING PROGRAM

(Part 3)

WEDNESDAY, APRIL 25, 1984

House of Representatives, Subcommittee on SBA and
SBIC Authority, Minority Enterprise and General
Small Business Problems, Committee on Small
Business,
Washington, DC.

The subcommittee met, pursuant to notice, at 9 a.m., in room 2359-A, Rayburn House Office Building, Hon. Parren J. Mitchell (chairman of the subcommittee) presiding.

OPENING STATEMENT OF CHAIRMAN MITCHELL

Mr. Mitchell. Good morning. Our hearing will come to order. Other members of the Small Business Committee will be joining us from time to time.

Today is the third in a series of hearings that this subcommittee, which I have the honor to chair, will conduct to determine compliance with the subcontracting program for small and small disadvantaged businesses.

On the first day of the hearing, the subcommittee heard testimony from trade associations, Defense Contract Administration Services Region for Los Angeles, CA, and field commanders from the Departments of Army, Air Force, and Navy.

On the second day of the hearing, the subcommittee heard testimony from the Office of the Secretary of Defense, the military services, and other Federal agencies regarding their implementation of the subcontracting program.

Today we will hear from large businesses who will present testimony to the subcommittee regarding their implementation of the subcontracting program mandated by Public Law 95-507.

I want to say for the benefit of the record that the two largest defense contractors declined to testify today, indicating they had no people available. The Boeing Co. is one of the largest, it is the fifth largest recipient of defense contracts for 1983. General Dynamics is the No. 1 recipient of defense contracts for 1983, contracts totaling $6.8 billion.

We will invite both of these companies again to come before the committee to testify. If they fail to do so, then we will ask them to submit in writing their compliance with the law. If they fail to do that, then I shall ask for subpoena powers from the entire Small Business Committee to subpoena their records to determine the extent and degree to which they are complying with the law.

I don't like to use subpoena powers, and I hope that these big defense contractors will comply. You see, if they don't, it suggests a number of things. It suggests perhaps that they are not complying with the law; it suggests that perhaps they don't keep accurate records to indicate whether they are complying with the law or not complying with the law; it might suggest a kind of contumacy for a committee of the Congress. We just don't know.

We shall give them every opportunity to present the material that we desire to this subcommittee and the full committee. In the event that, after all efforts fail, we do not get the material, then I shall seek subpoena powers from the full committee.

I want to thank all of the representatives of the various corporations who are here to testify this morning. It is always an arduous task to leave your shop and spend a day in Washington, because it takes at least a day to do this. Believe me, we are very grateful.

Congressman Daub, our minority member, has just joined us. Perhaps he has an opening statement.

OPENING STATEMENT OF HON. HAL DAUB, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. **Daub**. Thank you, Mr. Chairman.

I would say very briefly that I do appreciate what I have learned from participating in the first two parts of this three-part series of hearings to determine the compliance with the subcontracting program small and disadvantaged businesses.

I am particularly interested to hear from our witnesses this morning. Coming from the business community, it is my hope that this morning's witnesses will help us to better understand both the successes and the failures of Public Law 95-507. This morning's witnesses can give us advice, suggestions, and ideas for improving the administration of this important program. Public Law 95-507 is a good one, and this hearing, as did the two prior hearings, provides this committee with valuable insight for oversight for future directions in determining legislative policy and reform. Again, I want to commend you, Mr. Chairman, for allowing this opportunity to investigate the operation of this very important law.

Mr. **Mitchell**. Thank you very much, Congressman Daub.

I might say that I don't know of any member of the subcommittee or the full committee who has been more vigilant and more assiduous in his performance of his duties on these two committees.

Mr. **Daub**. Thank you very much, Mr. Chairman.

Mr. **Mitchell**. I certainly appreciate his concern and interest and support of programs for small and disadvantaged businesses.

The first group will consist of George Monroe, president of PRC Systems Services Co., and vice president of Planning Research Corp.; William D. Russell, division vice president of Government relations, RCA Service Co.; and Earle C. Williams, president and chief executive officer of BDM International, Inc.

Gentlemen, I thank you for being here. If you will take a seat at the table, please.

Again, thank you for taking the time to be here. We have received copies of your testimony. I must say that it is very responsive testimony. For all of you, if you so desire, your testimony will be submitted in its entirety for the record, and you may merely speak to the salient points. It is entirely up to you.

Let's start off with Mr. Monroe.

TESTIMONY OF GEORGE MONROE, PRESIDENT, PRC SYSTEMS SERVICES CO., AND VICE PRESIDENT, PLANNING RESEARCH CORP., ACCOMPANIED BY BERT CONCKLIN, DIRECTOR OF GOVERNMENT RELATIONS, AND WELDON LATHAM, ASSOCIATE GENERAL COUNSEL

Mr. MONROE. Good morning, Mr. Chairman, members of the subcommittee, ladies and gentlemen.

As you stated, Mr. Chairman, my name is George Monroe, and I am president of PRC Systems Services Co. and vice president of Planning Research Corp. I am accompanied today by Bert Concklin on my left, who is director of Government relations for PRC; and Weldon Latham on my right, who is vice president and general counsel of Sterling Systems, a PRC wholly owned subsidiary. Mr. Latham also is associate general counsel of PRC.

I appreciate the opportunity to appear here today on behalf of PRC to speak to the business of subcontracting to small and small disadvantaged business under Public Law 95-507. To supplement these oral remarks, I am submitting a complete statement for the record.

Mr. MITCHELL. Without objection, your entire statement will be entered into the record.

Mr. MONROE. Thank you, Mr. Chairman.

PRC is a technical and professional services firm providing engineering and computer-based services to both public and private sector clients. Approximately 50 percent of our revenues are derived from Federal Government contracts and the balance from other sources.

PRC was founded in 1954 as a small business and, in 1980, was a conglomeration of 22 quasi-autonomous operating companies, most of which became part of the PRC umbrella via acquisition. During 1981, PRC reorganized its 22 small companies into 4 operating groups, 2 of which are primarily Federal contractors. This reorganization was an effort to operate as a larger business. The process of transforming from 22 small businesses to a larger business is an ongoing one today.

In today's testimony, and with your indulgence, I will answer the specific questions requested by the committee related to PRC's subcontracting program results over the last 3 years, which coincides with the period since PRC's reorganization. I will also offer some observations and specific insights into serious problems with the executive branch implementation of Public Law 95-507. With your indulgence, I will conclude with some constructive alternatives which we believe could greatly enhance the realization of the public policy objectives embodied in that law.

While I do not pretend to speak for the professional and technical services community as a whole, I can state with confidence that there is a broadening base of responsible firms in the services sector which feel that there are substantial opportunities to improve the implementation of Public Law 95-507, and are willing to work individually and in appropriate coalitions with your committee toward that end. I am, therefore, pleased that these hearings present an opportunity to explore historical aspects of the implementation of Public Law 95-507, and equally important to initiate a productive dialog that can lead to substantive reform and better attainment of your goals. The Public Law 95-507 public/private sector interface to date could, at best, be characterized as strained. Through cooperation, which these hearings can begin, we certainly can do better.

I would like to take a few minutes to offer some insights into the professional and technical services sector. This sector is relatively new in the American economy. While PRC has been performing these services for 30 years, the industry has enjoyed most of its growth during the last 15 to 20 years. It is a segment of the economy whose output is the intellectual, technical, and managerial talent of its employees. Our product is solutions to complex operational and technical problems. We apply professional expertise in areas ranging from weapons systems analysis to automated passport validation to design and construction management of the launch and recovery complex for the space shuttle. Our thrust and success is based on application of information and knowledge.

The business environment, market structure, and business systems of services firms are fundamentally very different from firms which engage in the manufacturing of hardware. The differences become highly important, and often magnified, when confronted with a public policy program such as that applicable to small business.

Let me provide some insight into a few fundamental differences between the services industry and the manufacturing-based industry.

First, the cultural and marketing environment. Services firms which are small, intermediate, or large, but not technically small business compete in the same markets with the technically small businesses. There is, therefore, a legitimate and predictable tension between all other service firms and the technically small businesses when the issue becomes one of noncompetitively allocating market share to the technically small businesses.

With few exceptions, manufacturing-based firms do not find themselves competing directly with small businesses in the same market. These capital-intensive firms do not find that they have competition from small business in such areas as aircraft manufacture, shipbuilding, electronic systems, or what have you. Service firms, in complying with Public Law 95-507, are asked to give away a portion of their natural markets, whereas manufacturing-based firms, with few exceptions, are not.

This situation was exacerbated in PRC's case where 22 quasi-autonomous companies, most of which were small units operating under the PRC umbrella prior to 1981, were forced to regularly compete with technically small business firms and simultaneously give away parts of other contracts to those same competitors.

Next, let me treat the competitive implications. Competition is intense at all levels of the professional, technical, and management services sector. Most Government solicitations for such services result in a minimum of 5 to 10 or more responsive offers. The Government is, therefore, in the salutary position of procuring in a buyer's market, one which is highly competitive with respect to price and quality. The services firms compete with each other at all size levels.

Most importantly, we find that technically small businesses are consistently able to compete with the intermediate and larger firms. Hardware-based firms, in contrast, do not compete directly, in their main business lines with small businesses.

When a larger service firm subcontracts to a technically small business, it is in a very real way creating or helping to strengthen a competitor. While this is the law of the land under the Small Business Act, it is difficult to rationalize, given the already strong participation level of small business in the services area.

For example, technically small businesses already account for 41 percent of the dollar value of all service contracts under $2 million in the Department of Defense; technically small businesses enjoy a 25-percent dollar participation share in Department of Defense service contracts of all sizes, in contrast with 5 percent in R&D and 11 percent in supplies and equipment; the services segment is, therefore, already contributing a substantial share of Federal procurement to technically small business. In DOD, the share is far in excess of that being achieved in DOD hardware procurement.

Finally, one must consider the services contract requirements themselves. Hardware contracts, particularly for medium to high complexity military systems, tend to have many levels of subcontracting opportunity, since few hardware contractors actually manufacture all of the parts or provide the ancillary services needed to develop and manufacture total systems.

In contrast, the majority of professional and technical services contracts have what might be characterized as homogeneous content—that is, the work to be performed—for example, developing test and evaluation plans for a class of weapons systems—is an integrated, unified body of effort which does not require or easily lend itself to extensive subcontracting. In fact, PRC has advertised the multidisciplined closely knit team approach as its major asset, the major thing we have to sell, since its early days.

Equally important, the terms and conditions in work statements for some professional and technical services often discourage and sometimes explicitly prohibit subcontracting. Often the evaluation criteria which can make the difference between winning or losing a professional services opportunity implicitly make it clear that the use of subcontractors could result in lower Government scoring of a given proposal.

These subcontracting difficulties are substantially aggravated in instances of PRC's numerous contracts at remote sites. Two-thirds of our remote sites average only 10 people. The employees are dedicated to relatively small, but technically sophisticated Government contracts dispersed throughout the free world, thus rendering subcontracting to small and small disadvantaged businesses particularly difficult. For all of the above reasons, the typical service contract offers far less subcontracting opportunity than the typical hardware contract.

What are some implementation problems related to Public Law 95-507? We understand that Public Law 95-507 seeks to leverage the size, strength, and capability of larger firms through creation of positive prime subcontractor relationships between these firms and firms which are technically small business. The positive relationship may be achieved by providing management training and by transfer of technology from the larger business to the smaller.

Unfortunately, the implementation of Public Law 95-507 has been characterized by negative incentives upon prime contractors, often inequitable regulations and practices related to small business subcontracting and attempts to micromanage the process. These factors have created an adversarial atmosphere among the parties which has obstructed progress.

Owners and managers of businesses, when faced with mandatory Federal regulation, have two classical reactions: One, what will be the impact on my business in terms of growth, profit, market share, competitive posture, et cetera; and two, is the behavior required under the regulatory program fair, evenly distributed among participants and capable of being implemented without undue cost or disruption to ongoing business systems? Public Law 95-507 has major implementation deficiencies on both counts which I will attempt to summarize.

First, negative incentives drive the system. There is no unequivocal, clear, and uniformly applied set of rules, standards, and practices to instruct prime contractors as to precisely what behavior is expected with respect to subcontracting. Government attitudes vary from benign acceptance of a zero rate of subcontracting to very aggressive unilateral efforts on the part of agency small business advocates to achieve very large rates of participation, and all gradations in between.

There is often confusion within the agencies over agencywide goals, goals within given procurements, target levels for given classes of contracts, and how and by whom compliance will be determined. The statutory standard of the fullest extent and efficient performance of the contract is arbitrarily applied. Similar contracts may represent a 30 percent level of subcontracting because one agency is under its subcontracting goal at the time, or a zero level because another agency views subcontracting as inefficient.

The result for the average firm is one of confusion and anxiety with respect to how to fulfill its Public Law 95-507 obligations. In the absence of clear and consistently applied rules and contract requirements, firms making a good-faith effort to comply with the law often incur a competitive disadvantage which can result in the loss of a contract. Since subcontracting, by its very nature, adds cost, an ambitious small business subcontracting strategy that differs from that of competitors can work a detriment in determining who wins and loses. This is a very serious issue for us.

Second, the subcontracting function exists external to agency operations. Despite 5-plus years of attempts to integrate small business subcontracting into agency day-to-day policy and management processes, the function still exists outside the mainstream of those controlling the functions. Decisions to set aside an 8(a) contract are often an ad hoc, last-minute nature, and are almost never preplanned prior to the fiscal year or made a part of the process of allocating resources and developing procurement strategy and plans for the agency.

That is, instead of operating under a positive incentive to achieve a set of goals, program managers are more often subject to last-minute, unforeseen demands because the overall agency performance has been inadequate. This environment leads to bad decisions, often at the expense of the Government, non-small business or both. This often happens through a process of displacement of on-going activities where the expectation has been one of unrestricted competitive procurement. This, Mr. Chairman, can only lead to alienation on the part of the companies who have invested substantially in pursuing a marketing opportunity based on the Government's representation of unrestricted competition.

I have included in my testimony to be submitted for the record a description of several situations where PRC has been displaced by small business set-asides in ways which we maintain have been unfair and the Government has suffered as a result. This failure to serve the public interest can only inhibit the success operation of the Public Law 95-507 program.

Third, there is a lack of positive incentives. If any regulatory program is perceived as causing destabilization and disruption to the business system, it will not be well received and supported. Absent clear and uniform rules and practices, a program like Public Law 95-507 is left to the individual judgments of the business managers and Government officials expected to make the program work.

This is simply not realistic. Businesses generally will respond to positive approaches to achieving social goals if they understand the rules and believe that they are fair and workable. The rules must be simple and consistently applied to create positive motivation. I will outline several proposals in this respect at the conclusion of my statement.

I will now provide responses to your statistical questions related to subcontract participation of small and small disadvantaged businesses at PRC. The total value of PRC's Federal prime contracts over each of the past years was: for fiscal year 1981, about $137 million; 1982, $150 million; 1983, $171 million.

The total value of all subcontracting under Federal prime contracts for the same 3 years was: $8.5 million for fiscal year 1981, that compares to a total revenue of $136 million; for fiscal year 1982, $32.7 million in subcontracting out of $150 million; fiscal year 1983, $27 million of subcontracting out of a total of $171 million.

The total value of small business contracting with respect to total subcontracting was: In fiscal year 1981, 47 percent of our subcontracts went to small business; in fiscal year 1982, 57 percent; and in fiscal year 1983, 56 percent.

With respect to the total small business contracting share, we have established goals that range from 40 to 50 percent, depending on which operating group is involved and the types of contracts anticipated. In the last 2 years, we surpassed our goals. The small business share was 57 and 56 percent respectively. This level may or may not be achieved during the current and future year dependent on the nature of opportunities captured. I do, however, believe it is reasonable to continue to strive to maintain the present percentage level of small business subcontracting.

Finally, the small disadvantaged business value and percent with respect to total subcontract was: In 1981, $200,000, only 3 percent;

in 1982, $2.1 million, rising to 7 percent; and in 1983, $2.1 million, which was 8 percent.

We are not satisfied with our performance in the small disadvantaged business subcontracting area. As we have indicated, during the last 2 years, we had small disadvantaged business share percentages of 7 and 8 percent of total subcontracts respectively. We are in the process of reviewing this and will, in all likelihood, adjust the goal to the 15- to 20-percent range in fisal year 1985 and beyond.

We have taken a number of steps which should lead to a larger proportion of disadvantaged small business participation. First, we recognize that our present pattern of subcontracting was a result of established business relations with firms whose skills and abilities were well known to us. We recognized that our knowlege of the small disadvantaged business area was limited. In June 1983, we acquired Sterling Systems, a successful 8(a) firm with a reputation of performance. The acquisition gave us access to staff with a good base of knowledge of the workings of the minority business community, which was heretofore unavailable to us. Sterling's staff now assists other PRC staff in the identification, selection, and negotiation of relationships with small disadvantaged businesses.

Also, during the last year, PRC has recruited and hired a senior executive, a significant part of whose responsibility it is to develop relations with small disadvantaged businesses which enhance PRC's competitive advantage.

Lastly, the aforementioned PRC reorganization has just recently begun to provide the centralized corporate resources to effectively monitor and enforce a number of corporate goals, including small and small disadvantaged business subcontracting. Thus, in PRC's case, we have recently established a number of effective means to significantly improve our small disadvantaged business subcontracting performance in future years.

I would also like to give you some further examples of PRC activity related to small business programs which will give you insight into the degree of commitment behind our program.

First, in 1983 and 1984, we have advanced progress payments to small and small disadvantaged business subcontractors in excess of $400,000, which were not yet matched by payments from the Government to us as the prime contractor.

Second, we are currently in negotiations to subcontract or team with at least 10 different 8(a) firms for projects all over the United States, and in one case, an international project. This activity is not random; it is a part of our current corporate business development strategy.

Third, both of the PRC groups that primarily perform contracts with the Federal Government were recently audited by the Defense Contract Administration Service Agency with respect to Public Law 95-507 compliance. They were judged to be in compliance in all respects. From my group, Mr. Chairman, we got our latest compliance letter just yesterday.

What constructive improvement options for implementation of Public Law 95-507 come to mind? The current climate can be substantially improved through policy changes which provide a coherent and positive environment for the realization of small business subcontracting goals.

The principal elements for achieving. progress include, first, agency planning and management. The determination of small business utilization goals, allocation of participation throughout the agency's purchasing of goods and services, and day-to-day management of the process are extremely weak to nonexistent in many agencies. Few agencies go through a deliberate top-down and bottom-up before-the-fact planning process at the beginning of each fiscal year to allocate prospective small and small disadvantaged business participation throughout the agency's procurement activities.

The present ad hoc process often causes substantial disruption to both the Government and contractors apportionment of small business participation throughout the agency's programs. This should be required as a before-the-fact matter.

Such a process would make it possible to state unequivocally in each solicitation what the Government's utilization targets are for both small business and small disadvantaged business. Government management, the small business community, and the non-small business community would understand the rules and the prospective impact and opportunity posed by agency's approach to small business utilization.

Second, small business utilization and source selection and its importance. Small business plans are required in many responses to solicitations, but they are not, however, widely regarded as a factor which materially affects the determination of the winner. Attention to small business utilization would be dramatically improved if the small business plan response became a factor which is evaluated, scored, and formally considered in choosing a winner.

Making small business participation an integral part of source selection would provide a strong incentive for prime contractors to aggressively respond to the requirement. This can be readily accomplished by incorporating quantitative small and small disadvantaged business requirements in each and every solicitation, thus putting all bidders on an equal footing. In the professional and technical services industry, if small business utilization was made a real and binding part of determining who wins and who loses, a very positive incentive to achieve your goals would immediately occur.

Back in 1982, incidentally, this concept was independently espoused by an SBA-sanctioned task force, but it has never been implemented.

The foregoing two alternatives, if effectively administered, would create a planned, managed, and incentive-driven approach to improving small business subcontractor utilization. There are other policy considerations the committee may also wish to consider to improve the program.

One, a small percentage of total contract value could be automatically granted to the prime contractor for the exclusive purpose of management, technical and other training of the subcontractor, thus removing the prime contractor's concern of incurring a competitive disadvantage on cost because of the obligation to train a subcontractor.

Two, utilization of incentive payments for exceeding subcontractor goals is authorized by Public Law 95-507, but rarely used by agencies.

Three, contractors with exemplary small business utilization profiles could be eligible for exemption from displacement on certain contracts. Thus, where a contractor is performing well on a contract and has substantially surpassed its small and small disadvantaged business subcontracting goals, the Government could determine that the contract was exempt from set-side where recompetition is pending. This would remove one of the most onerous results of the small business program.

Thank you, Mr. Chairman and committee members for the opportunity to testify. I will be glad to answer any questions.

Mr. MITCHELL. Thank you very, very much. That was very, very comprehensive testimony. You saw me scribbling down questions that I want to put to you.

[Mr. Monroe's prepared statement follows:]

Prepared Statement of George Monroe, President, PRC Systems Services Co., and Vice President, Planning Research Corp.

My name is George Monroe and I am President of PRC Systems Services Company and Vice President of Planning Research Corporation (PRC). I am accompanied today by Bert Concklin, Director of Government Relations for PRC, and Weldon Latham, Vice President and General Counsel of Sterling Systems, a PRC wholly owned subsidiary, and Associate General Counsel of PRC.

I appreciate the opportunity to appear here today in behalf of PRC to speak to the issue of subcontracting to small and small disadvantaged business under Public Law 95-507. I will confine my remarks to approximately 10 minutes if that is agreeable, in addition to submitting a complete statement for the record.

PRC is a technical and professional services firm providing engineering and computer based services to both public and private sector clients. Approximately fifty per cent of our revenues are derived from federal government contracts and the balance from a combination of state, local and international governments, and commercial clients. PRC was founded in 1954 as a small business and in 1980 was a conglomeration of twenty-two quasi-autonomous operating companies, most of which became part of the PRC umbrella via acquisition. During 1981 PRC reorganized its twenty-two small companies into four operating groups (two primarily federal contractors and two primarily commercial service firms) in an effort to operate as a larger business. This process is an ongoing one.

In today's testimony, and with your indulgence, I will answer the specific questions requested by the Committee related to PRC's subcontracting program results over the last three years, which coincides with the period since PRC's reorganization. I will also offer some observations and specific insights into serious problems with the Executive Branch implementation of PL 95-507. I will conclude with some constructive alternatives which we believe could greatly enhance the realization of the public policy objectives embodied in PL 95-507.

While I do not pretend to speak for the professional and technical services community, I can state with confidence that there is a broadening base of responsible firms in the services sector which feel that there are substantial opportunities to improve the implementation of PL 95-507 and are willing to work individually, and in appropriate coalitions, with this Committee toward that end. I am therefore pleased that these hearings present an opportunity to explore historical aspects of the implementation of PL 95-507 and equally important to initiate a productive dialogue that can lead to substantive reform and better attainment of your goals. The PL 95-507 public-private sector interface to date could at best be characterized as strained. Through cooperation, which these hearings can begin, we must and can do better.

Professional and Technical Services Sector

I would like to take a few minutes to offer some insights into the professional and technical services sector. This sector is relatively new in the American economy. While PRC has been performing these services for thirty years, the industry has enjoyed most of its growth during the last fifteen to twenty years. It is a segment of the economy whose output is the intellectual, technical and managerial talent of its employees. Our product is solutions to complex operational and technical problems. We apply professional expertise in areas as diverse as weapons systems analysis, and automated passport validation to design and construction management of the launch and recovery complex for the Space Shuttle. Our thrust and success is based on information and knowledge (i.e., intellectual property).

The business environment, market structure and business systems of "services firms" are fundamentally very different from firms which engage in manufacturing of hardware, components and other physical goods. The differences become highly important and often magnified when confronted with a public policy program such as that applicable to small business. The following discussion provides insight into some of the fundamental differences between the services industry and the manufacturing based industry.

- Cultural and Market Environment. Services firms which are small, intermediate or large but not "technically" small business compete in the same markets with the technically small businesses. There is, therefore, a legitimate and predictable tension between all other service firms and the "technically" small businesses when the issue becomes one of noncompetitively allocating market share to "technically" small businesses.

  With few exceptions, manufacturing based firms do not find themselves competing directly with small businesses in the same market. These capital intensive firms do not find that they have competition from small business in such areas as aircraft manufacture, shipbuilding, electronic systems and many of the other areas which are commonly the subject of federal procurement. The important distinction is that service firms in complying with PL 95-507 are asked to give away a portion of their natural markets whereas manufacturing based firms, with few exceptions, are not.

This situation was exacerbated in PRC's case where twenty-two quasi-autonomous companies, most of which were small units operating under the PRC umbrella prior to 1981, were forced to regularly compete with "technically" small business firms and simultaneously "give-away" parts of other contracts, once competitively won.

- Competitive Implications. Competition is intense at all levels of the professional, technical and management services sector. Most solicitations or bid invitations to fulfill government service requirements result in a minimum of five to ten responsive offers and often more. The government is, therefore, in the salutary position of procuring in a buyer's market which is highly competitive with respect to price and quality. The services firms compete with each other at all size levels. "Technically" small businesses are consistently able to compete with the small, intermediate and larger firms, usually on the basis of the technical excellence of their product and/or their favorable cost/price structure. Hardware based firms, in contrast, with rare exceptions do not compete directly with technically small or smaller businesses.

When the other service firms subcontract to a "technically" small business, it is in a very real way creating or helping to strengthen a competitor. While this is the law of the land under the Small Business Act, it is difficult to rationalize given the already strong participation level of small business in the services area. For example:

--Technically small businesses already acccount for forty-one per cent of the dollar value of all service contracts under $2M in the Department of Defense.[1]

--Technically small businesses enjoy a twenty-five per cent dollar participation share in Department of Defense service contracts of all sizes in contrast with a five per cent in R&D and eleven per cent in supplies and equipment.[1]

--The services segment is, therefore, already contributing a substantial share of Federal procurement to technically small business. For example, in DOD the share is far in excess of that being achieved in nonservices procurement (e.g., hardware and supplies and equipment.)

- Service Contract Requirements. Hardware contracts, particularly for medium to high complexity military systems, tend to have many levels of subcontracting opportunity--since few hardware contractors actually manufacture all of the subsystems, components and parts or provide the ancillary services needed to develop and manufacture total systems. In contrast, the majority of professional and technical service contracts have what might be characterized as homogeneous content--that is, the work to be performed (e.g., developing test and evaluation plans for a class of Army weapon systems) is an integrated, unified body of effort which does not require or easily lend itself to subcontracting. Equally important, the terms and conditions in work statements for some professional and technical services explicitly prohibit or discourage subcontracting. Often the evaluation criteria which can make the difference between winning or losing an opportunity, implicitly make it clear that the use of subcontractors could result in lower government scoring of a given proposal.

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[1] Source--FY 83 Federal Procurement Data System

These subcontracting difficulties are substantially aggravated in instances of PRC's numerous contracts at remote sites (i.e, two-thirds of which average ten people). The employees are dedicated to relatively small but technically sophisticated government contracts dispersed throughout the world; thus rendering subcontracting to small and small disadvantaged businesses particularly difficult. In order to subcontract a part of these small contracts, a SB or SDB would be required to recruit, train, secure appropriate clearances, where necessary, and deliver a highly skilled employee to a site remote to that business' operation. It would then be required to integrate that staff into the PRC operation, while simultaneously providing management and support services. It is highly questionable whether most SBs and SDBs have adequate resources to effectively provide these services as a subcontractor in a manner profitable to that small business; particularly where these requirements are superimposed in the already difficult subcontracting environment of the services industry.

For all of the above reasons, the typical service contract offers far less subcontracting opportunity than the typical hardware contract.

Implementation Problems Related to PL 95-507

Study of legislative history behind PL 95-507 reveals a public policy whose philosophy and concepts should be compelling to every American and every businessman. I understand that it seeks to leverage the size, strength and capability of larger firms through creation of positive prime-subcontractor relationships between these firms and firms which are technically small business. The positive relationship may be achieved by providing management training in its broad and specific senses and by transfer of technology to small business subcontract participants. Unfortunately, the implementation of PL 95-507 has been characterized by negative incentives upon prime contractors, often inequitable regulations and practices related to small business subcontracting and attempts to "micromanage" the process, particularly on the part of the Executive Branch. These factors have created an adversarial atmosphere among the parties which has obstructed progress.

Owners and managers of businesses, when faced with mandatory Federal regulation, have two classical reactions: (1) what will be the impact on my business in terms of growth, profit, market share, competitive posture, etc.; and (2) is the behavior required under the regulatory program fair, evenly distributed among participants and capable of being implemented without undue cost or disruption to ongoing business systems. PL 95-507 has major implementation deficiencies on both counts which I will attempt to summarize.

- Negative Incentives Drive the Systems. There is no unequivocal, clear and uniformly applied set of rules, standards and acceptable practices to instruct prime contractors as to precisely what behavior is expected with respect to subcontracting. Government attitudes vary from benign acceptance of a zero rate of small and small disadvantaged businesses subcontracting to very aggressive unilateral efforts on the part of agency small business advocates to achieve very large rates of participation--and all gradations in between.

There is often confusion within the agencies over agency-wide goals, goals within given procurements (e.g., services versus R&D versus material procurement), acceptable or target levels for given classes of contracts, and how and by whom compliance will be determined. The statutory standards of the "fullest extent consistent with the efficient performance of the contract" is arbitrarily applied. Similar contracts may represent a 30% level of subcontracting because one agency is under its subcontracting goal or a zero level, because another agency views subcontracting as "inefficient." The result for the average firm is one of confusion and anxiety with respect to how to fulfill its PL 95-507 obligations. In the absence of clear and consistently applied rules and contract requirements, firms making a good faith effort to comply with the law, often incur a competitive disadvantage which can result in the loss of a contract. An ambitious small business subcontracting strategy that differs from its competitors can work to its detriment in determining who wins and loses.

For example, there are additional costs associated with subcontracting, whether to a technically small or other size business. If PRC elects to subcontract at the rate of fifty per cent to a small or small disadvantaged business and a competitor elects ten per cent, this could result in a cost differential in favor of the competitor. Since cost is not a neutral factor in most negotiated, and certainly advertised, procurements, a difference of one or two percentage points may make the difference between a winner and a loser. The obvious solution to this problem is to put everyone on a common footing, a point which I will address later in suggesting constructive policy changes which would materially enhance the realization of PL 95-507 goals.

- The Subcontracting Function Exists External to Agency Operations. Despite five plus years of attempts to integrate small business subcontracting into agency day-to-day policy and management processes, the function still exists outside the mainstream of these controlling functions. Decisions to set-aside an 8(a) contract are often of an ad hoc, last minute nature and are almost never preplanned prior to the fiscal year or made part of the process of allocating resources and developing procurement strategy and plans.

  Few program managers are operating under a positive incentive to achieve a set of goals related to 95-507. They are more often subject to last minute, unforeseen demands in the agency or small business community because the overall agency performance is inadequate. This environment leads to bad decisions, often at the expense of the government, non-small business or both. This happens through a process of displacement of ongoing contracts or ongoing marketing activities where the expectation has been one of unrestricted, best qualified, competitive procurement. This, Mr. Chairman, can only lead to alienation on the part of the smaller, intermediate and large companies who have invested substantial dollars, reputation and corporate energies in developing a responsive relationship or pursuing a marketing opportunity based on the government's representation of unrestricted competition.

I have included in my testimony to be submitted for the record a description of several situations where PRC has been displaced by small business set-asides in ways which have been unfair, and the government has suffered. This failure to serve the public interest can only inhibit the successful operation of the PL 95-507 program.

- Lack of Positive Incentives. If a regulatory program, whether economic or social economic, is perceived as causing destabilization and disruption to the business system, it will not be well received and supported. Absent clear and uniform rules, practices and the application thereof, a program like PL 95-507 is left to the individual consciences, instincts, and judgments of the businessmen and officials expected to make the program work. This is simply not realistic. Businesses generally will respond to positive approaches to achieving social goals if they understand the rules and believe they are fair and workable. The rules must be simple, workable and fairly and consistently applied, to create positive motivation for greater use of small and small disadvantaged contractors by prime contractors. I will outline several proposals at the conclusion of my statement.

I will now provide responses to your statistical questions related to subcontract participation of small and small disadavantaged businesses. The total value of PRC's federal prime contracts over each of the past years was:

FY 81	136.6M
FY 82	150.4M
FY 83	171.0M

The total value of all subcontracting under federal prime contracts for the same three years was:

FY 81	8.5M
FY 82	32.7M
FY 83	27.0M

The total value of small business contracting and per cent with respect to total subcontracting was:

FY 81	4.0M (47%)
FY 82	18.5M (57%)
FY 83	15.3M (56%)

With respect to total small business contracting share, we have established goals that range from forty to fifty per cent depending on which operating group and the types of contracts anticipated. In the last two years we surpassed our goals--the small business share was 57% and 56%, respectively. This level may or may not be achieved during the current and future year dependent on our success in capturing opportunities and the nature of those opportunities. I do, however, believe it is reasonable to continue to strive to maintain the present level of small business subcontracting.

Finally, the small disadvantaged business value and per cent with respect to total subcontract value was:

FY 81	.2M (3%)
FY 82	2.1M (7%)
FY 83	2.1M (8%)

We are not satisfied with our performance in the small disadvantaged business subcontracting area. As we have indicated, during the last two years we had SDB share percentages of 7% and 8%, respectively. We are in the process of reviewing this and will in all likelihood adjust the goal to the 15% to 20% range in FY 85 and beyond.

In recognition of PRC's inability to date to sufficiently improve our performance in small disadvantaged business subcontracting, we have taken a number of steps to address the problem. First, we recognized that our present pattern of subcontracting was a result of established business relations with firms that PRC knew and whose skills and abilities we were confident would assist in providing quality services to the government. We recognized that our knowledge of the SDB arena was limited. In June of 1983, we acquired Sterling Systems Incorporated (Sterling), a successful 8(a) firm with a reputation for performance. The acquisition gave us access to staff with a good base of knowledge of the workings of the minority business community which was heretofore unavailable to us. Sterling's staff now assists other PRC staff in the identification, selection, and negotiation of relationships with SDBs.

Also, during the last year, PRC has recruited and hired a senior executive, a significant part of whose responsibility it is to develop relations with SDBs which enhance PRC's competitive advantage in pursuing work both in the Federal, as well as the state and local marketplace. Lastly, the aforementioned PRC reorganization has just recently begun to provide the centralized corporate resources to effectively monitor and enforce a number of corporate goals, including small and small disadvantaged business subcontracting. Prior to that time, central corporate management lacked the resources to effectively implement the enforcement of such a program. Thus, in PRC's case, we have recently established a number of effective means to significantly improve our SDB subcontracting performance in future years.

I would also like to give you some further examples of PRC activity related to small business programs which will give you insight into the degree of commitment behind our program.

- In 1983 and 1984 we have advanced progress payments to small and small disadvantaged business subcontractors in excess of $400,000 which were not yet matched by payments from the government to us as prime contractor.

- We are currently in some state of negotiation to subcontract or team with at least ten different 8(a) firms for projects all over the United States and in one case an international project. This activity is not random--it is part of our current corporate marketing strategy.

- Both the PRC groups that primarily perform contracts with the Federal government were recently audited by the Defense Contract Administration Service Agency with respect to PL 95-507 compliance. The results were positive and we were judged to be in compliance in all respects.

Constructive Improvement Options for Implementation of PL 95-507.

The current climate can be substantially improved through policy changes which provide a coherent and positive environment for the realization of small business subcontracting goals. The principal elements for achieving progress include:

- Agency Planning and Management. The determination of small business utilization goals, allocation of participation throughout the agency's purchasing of goods and services, and day-to-day management of the process are extremely weak to nonexistent in many agencies. Few agencies go through a deliberate top down and bottom up before-the-fact planning process at the beginning of each fiscal year to allocate prospective small and small disadvantaged business participation throughout the agency's hierarchy of procurement activities.

The present ad hoc process often causes substantial disruption to both internal management and current contractor relationships. Logical and fair apportionment of small business participation throughout the agency's contractor supported programs should be required as a before-the-fact matter, done in the same manner, with the same level of importance, as overall agency programming and budgeting, based on criteria such as:

- The agency's overall procurement strategy/contract management plans
- New program starts
- Expansion of existing requirements (for goods or services)
- Size and functional mix of prospective consolidated contracts
- Relative level or sophistication of technology
- Susceptibility of contractor requirements to providing transfer of management, technical and administrative acumen

The above process would make it possible to state, unequivocally, in each solicitation what the government's utilization targets are for both SB and SDB. Government management, the small business community, and the non-small business community--would understand the rules and the prospective impact and opportunity posed by the agency's approach to small business utilization.

- Small Business Utilization and Source Selection. Small business plans (SBPs) are required in many responses to solicitations/bids. They are not, however, widely regarded as a factor which materially affects the determination of the winner. Attention to small business utilization would be dramatically improved if the SBP response became a factor evaluated, scored and formally considered in choosing a winner. The mechanics would be easy to construct for negotiated procurements. For advertised procurements, one approach would be to make the SBP a pass-fail situation for the lowest bidder. If the low bidder cannot achieve a pass, the agency would go to the second lowest bidder.

  Making small business participation an integral part of source selection would provide a strong incentive for prime (non-small business) contractors to aggressively respond to the requirement. This can be readily accomplished by incorporating quantitative small and small disadvantaged business requirements in each RFP/IFB--thus putting all bidders on an equal (competitive) footing. In the professional and technical services industry, if small business utilization was made a real and binding part of determining who wins and who loses in a contract competition, a very positive incentive to achieve your goals, would immediately occur. This concept was independently espoused by a SBA sanctioned Task Force of SBA staff and small disadvantaged business representatives.[2]

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[2] See, SBA Task Force, "Report and Recommendation for Improving Implementation of the Subcontracting Provisions of PL 95-507 as They Apply to Minority Business", November 3, 1982, which includes several recommendations to further incentivize the program.

- Other Policy Alternatives. The foregoing two alternatives, if effectively administered, would create a planned, managed and incentive-driven approach to improving the quantity and quality of small business subcontractor utilization. There are other policy considerations the Committee may also wish to consider to improve the program:

  --A small percentage of total contract value could be automatically granted to the prime contractor for the exclusive purpose of management, technical and other training of the subcontractor, thus removing the prime contractor's concern of incurring a competitive disadvantage on cost because of the obligation to train a SB or SDB subcontractor.

  --Utilization of incentive payments for exceeding subcontractor goals authorized by PL 95-507 but rarely used by agencies.

  --Contractors with exemplary small business utilization profiles could be eligible for exemption from "displacement" on certain contracts. Thus, where a contractor is performing well and at reasonable cost to the government and has substantially surpassed its small and small disadvantaged subcontracting goals, the government could determine that the contract was exempt from SB or SDB set-aside, where exercise of an option year or recompetition is pending. This would remove one of the most onerous results of the small business program which negatively impacts many prime contractors as well as the government, which is subjected to disruption and loss of superior prime contractors, midstream in a contract.

Thank you, Mr. Chairman, for the opportunity to testify. I will be glad to answer any questions.

Mr. MITCHELL. What I would like to do is hear from all three of the witnesses first, and then we will put questions to all three witnesses.

Mr. Russell.

TESTIMONY OF WILLIAM D. RUSSELL, DIVISION VICE PRESIDENT, GOVERNMENT RELATIONS, RCA SERVICE CO., ACCOMPANIED BY JOHN J. CONNORS, VICE PRESIDENT, RCA BASE SUPPORT SERVICES, INC.

Mr. RUSSELL. Thank you, Mr. Chairman, members of the committee and staff.

I am William D. Russell, vice president of government relations, RCA Service Co. I am accompanied by John J. Connors, vice president for RCA Base Support Services, Inc.

We are very pleased to have the opportunity to be here today to discuss our subcontracting program for small and small disadvantaged business, and the very deep philosophy that the RCA Corp. has to this program, and has had for many years as part of its basic corporate commitment.

The RCA Service Company Division of RCA is a division which provides a broad range of services worldwide. Approximately one-half of this business is in the form of commercial services, and approximately one-half is government—United States, foreign, and also State and local governments. We are a division that is split evenly between commercial and Government work.

However, we operate under a very strong corporate policy to promote business relationships with the small and small disadvantaged business that has been in existence since well before the passage of Public Law 95-507. The RCA Corp. formed a minority business enterprise program in 1970, managed from the corporate staff level with representation from each of our operating divisions. The program provides for regular meetings of this advisory group to review our activities, our progress in the various divisions, to set goals, and to revise policy to more effectively reach the minority community in purchases by all divisions of RCA.

I think it is particularly significant that this program, rather than simply establishing dollar goals for purchases from minority-owned firms, also establishes goals for the number of firms that are to be included in our program. We have significantly exceeded those goals each year.

This feature is in pursuit of our objective not only to develop business relationships with a few minority-owned firms, but also to demonstrate a very positive corporate approach by going out and identifying and developing new firms that can be brought into the mainstream of our business relationships each year.

We are an active member of the National Minority Purchasing Council and six different regional minority purchasing councils, which have been a useful resource for us in identifying minority-owned firms which provide the types of products and services that we require.

Of course I am just summarizing my statement briefly, Mr. Chairman.

Mr. MITCHELL. As we indicated, your entire statement will appear in the record.

Mr. RUSSELL. I appreciate that. Thank you, sir.

Our statement provides significant details on our entire program, the responsibilities and activities of our minority business advisory group, and the minority small business coordinators in each division. They have extensive responsibilities which they actively pursue.

The detailed procedures that we have established at the corporate level are appended to our statement. They provide the overall framework in which our people operate to carry out the program.

In addition to these corporate procedures, our RCA Service Co. government contracts are under the cognizance of the Defense Contract Administration Service [DCAS] office, located in Mooristown, NJ, where we are regularly reviewed for approval of our purchasing system. These reviews cover our entire approach to subcontracting, our procedures, and our actual performance under various Government contracts in terms of exerting our best efforts to achieve the goals that are established in each of these contracts.

We have recently received a letter from our cognizant DCAS office which states that all of our contracts which they have monitored are in interim compliance. These contracts are in interim compliance because a final compliance cannot be determined until the contract is completed. As long as we are meeting a prorated portion of our goals as contract performance proceeds, we are in interim compliance, to be finalized when the contract is over.

I would like to go to the specific questions that were raised in your letter of invitation to testify here today.

The first one referred to our overall subcontracting program, which I think is described in considerable detail in our attached statement. I will not go into any further comment on that at this point.

You asked for the value of prime contracts awarded during the past 3 years. We felt that the value of contracts awarded would not be a particularly meaningful figure because of the number of multiyear contracts that we receive. Rather, we have prepared figures based on our actual sales for each of those 3 years, which represents the contract performance that constituted our business base during each year. In calendar year 1981, we had a total of $219 million in Federal Government prime contracts. In calendar year 1982, it was $238.8 million. In calendar year 1983, it was $289.4 million.

The next question involved the dollar value, number of subcontracts and percent of all subcontracts awarded to small and small disadvantaged business for each of those past 3 years. For calendar year 1981, 19,875 subcontracts were awarded to small business firms, with a value of $18.6 million, and which constituted 76.2 percent of all the subcontracts that we awarded during that year. In terms of dollars, the contracts awarded to small business firms constituted 60.9 percent of the funds subcontracted.

Also, during calendar year 1981, we awarded 737 contracts to small disadvantaged businesses for a total of $1.6 million, which represented 5.3 percent of the dollars awarded in subcontracts during that calendar year.

In calendar year 1982, we awarded 25,677 subcontracts to small business, which represented $27.8 million and 67 percent of the total dollars awarded in subcontracts. During the same year, we awarded 762 contracts to small disadvantaged businesses for $1.2 million, representing 2.8 percent of the total subcontracts awarded that year.

In calendar year 1983, we awarded 35,398 contracts to small business firms, representing $26 million and 61 percent of the total subcontracts awarded. That year, 731 contracts were awarded to small disadvantaged businesses, totaling $1.5 million and 3.4 percent of our total subcontract awards.

The next question concerned the extent to which the small and small disadvantaged business program accomplishments were taken into account when evaluating the performance of our acquisition personnel. Our acquisition personnel are, of course, subject to meeting many requirements: All of our contractual requirements, complying with other contract and Government policies and procedures, and also corporate policies. We have tried to evaluate all of their responsibilities, including the extent to which they have been successful in meeting small and small disadvantaged program objectives.

All of these factors are taken into account in their annual performance evaluations, and any specific deficiencies in performance in the area of small and small disadvantaged business utilization, or any other major discrepancies in their job performance, it is called to the individuals' attention. They are counseled carefully to improve in that area, and any deficiency in performance has an impact on consideration for merit increase, both in timeliness and amount.

We do not have as rigid a program for salary increases as the Federal Government. We have a much more flexible program in which job performance and overall merit can be the major factor in determining when and how much of an increase employees will receive.

The next question concerned the training that we provide our personnel for the implementation of our company's subcontracting program. All of our purchasing personnel are provided with an initial 2-week training program that covers all facets of procurement, with heavy emphasis on subcontracting. During this time, the goals established for the company—and a particular contract when applicable—are reviewed and discussed. Information regarding where and how to locate small and small disadvantaged business is disseminated, citing local Small Business Administration offices, the Try-Us publication which we found to be very useful, corporate resources that list companies by size and type designation, and information available from the division Minority and Small Business Coordinator.

In addition, we conduct corporate and division procurement seminars each year to provide training on current methods and practices in accomplishing the procurement function. Subcontracting and implementation of the subcontracting program is an integral part of these seminars. Procurement personnel are also encouraged to take advantage of local programs given by Government agencies and by independent training organizations, such as Procurement

Associates and American Management Association, with regard to area of procurement.

Incidentally, a corporate seminar is scheduled for October of this year, and an RCA Service Co. division seminar and workshop is scheduled for May and June 1984. These are ongoing programs which provide training for our purchasing people who are going to be responsible for determining the source of the products and services that we use.

Mr. MITCHELL. Excuse me just a minute.

Mr. RUSSELL. Yes, sir.

Mr. MITCHELL. On both of those seminar training programs, where will they be held?

Mr. RUSSELL. I am not certain of the location of them. I would assume that the division workshop seminar would be held in our division headquarters in Cherry Hill, NJ.

The corporate program could be held in New York City, which is our corporate headquarters, or it could be held in some other location. They frequently pick an isolated site so that they can get the people away from their normal work environment to concentrate on the program.

Mr. MITCHELL. That last statement sort of put a damper on where I was going. I would like very much to attend, but I don't know whether this is possible under your corporate policy. It might be interesting to sit in on one of those training seminars. I don't know.

Mr. RUSSELL. I think that would be an excellent idea. I will certainly check the details on it and communicate back to the committee, sir.

Mr. MITCHELL. If it is too isolated, count me out.

Mr. RUSSELL. I understand. I don't particularly enjoy those, either. I spent a miserable week in the Pocono Mountains about a month ago in one of these corporate management programs, not on this subject, but on another one.

Our last question related to how our company has changed its subcontracting program since the passage of Public Law 95-507.

Although RCA has had a formal and active small and minority business enterprise program since 1970, the passage of Public Law 95-507 gave more structure and formalization to that program. Greater emphasis had to be placed then on individual contracts under Public Law 95-507. In the past, we had looked at individual contract goals and performance, but the emphasis was more on division or other organizational element of the company in meeting goals that had been established internally in the corporate structure.

Each contract location is now required to report on actual performance versus goals established in our subcontracting plan for each contract, and a formal coordinator was established with the passage of Public Law 95-507 to provide counsel, guidance, and assistance to our project managers.

One thing that might seem a little difficult to coordinate in this is the decentralization of our contracts in their management and operation, and the centralization of our procurement function. In most of our contracts, subcontracting and purchasing is handled through our home office purchasing group in Cherry Hill, NJ, even though the contracts are spread rather widely around the country. Some of our larger contracts do have their own local purchasing function, but most of our contracts rely on the division purchasing function in our home office. This requires very careful coordination between the project management at the contract location and the purchasing function in our home office. We have developed procedures to coordinate this and provide what we feel is a strong commitment to accomplishing our objectives and meeting our goals under each contract.

That concludes my summarization of the statement, Mr. Chairman. I appreciate you including the entire statement in the record. I will be most happy to respond to any questions that you might have.

Mr. MITCHELL. Thank you very much for a very cogent and interesting statement.

[Mr. Russell's prepared statement with attachments follows:]

PREPARED STATEMENT OF WILLIAM D. RUSSELL, DIVISION VICE PRESIDENT, GOVERNMENT RELATIONS, RCA SERVICE CO.

My name is William D. Russell. I am Division Vice President, Government Relations, RCA Service Company, A Division of RCA Corporation. I would like to introduce an associate I have with me today, Mr. John J. Connors, Vice President, RCA Base Support Services, Inc.

RCA Service Company is a Division of RCA Corporation whose business is totally within the service sector. We are one of the largest service organizations in the world, employing over 15,000 people. Our acitivies are worldwide in scope and divide equally between business in the private sector and with United States or foreign governments. RCA Base Support Services is a wholly owned subsidiary of RCA Corporation and is engaged primarily in the business of providing services to the United States government for contracts awarded under provision of OMB Circular A-76.

We are pleased to be here today in response to your invitation to discuss our involvement as a major U.S. government contractor in the implementation of Public Law 95-507.

Let me begin by presenting an overview of the policies and practices in effect within RCA Corporation for small and minority business development and then I will detail answers to the specific questions raised in your letter of 15 March 1984.

While the following policies and practices are RCA Corporation, they are fully required as implemented policy for all elements, divisions, and subsidiaries of RCA. These procedures are required so that maximum and uniform efforts will be taken to assure small business and small disadvantaged business concerns, owned and controlled by the socially and economically disadvantaged, will have an equitable opportunity to compete for all tiers of subcontracts throughout RCA.

RCA officially created a Minority Business Enterprise Program in 1970. It is managed by the Director of Government Procurement Programs (a Corporate Staff position) who serves as the Corporate Minority and Small Business Liaison Officer.

Each RCA Division and business operating unit has a minority and small business coordinator who administrates the local programs within the Corporate framework and guidelines (RCA Corporate Policy 22109 and Purchasing Instruction C-12007, an integral part of the Corporate Purchasing Manual.) (Copies Attached)

To further ensure an innovative and productive program, a nine-member RCA Minority Business Advisory Group was created. It is comprised of three Corporate Executives and six Divisional Purchasing Executives who meet three times a year to:

(1) Review and establish policy;
(2) Submit suggestions which may improve performance;
(3) Develop promotional and award programs; and
(4) Review and develop goals.

The committee also assigns a business goal to each division and business unit purchasing activity. These goals are monitored (on a monthly basis) at the corporate level to ensure that the established goals and objectives are met.

To further ensure the desired results, RCA is a National Member of the National Minority Purchasing Council. The Minority and Small Business Coordinator is a member of the Regional Minority Purchasing Councils located in New York, Boston, Philadelphia, Pittsburgh, Indianapolis, Los Angeles, and Harrisburg.

RCA's system has consistently produced an increase in the amount of business annually done with small and minority businesses.

Each corporate major operating unit is required to assign a Small Business Coordinator as an advocate for all small and minority programs and for each contract containing a 95-507 plan. These individuals are charged with the responsibility to ensure maximum participation of small and disadvantaged small business through the following steps:

- o Ensure that an adequate list of potential sources is available to each buyer.
- o Review all major procurements (over $2,500) to ensure that small and socially and economically disadvantaged businesses are included in the bid list.
- o Maintain membership in the National Minority Purchasing Council and other volunteer organizations and to seek new potential sources.
- o Review progress (on a monthly basis) with the Manager of Materials or other comparable personnel.

- Furnish management assistance to those businesses needing assistance in becoming qualified suppliers.
- Ensure that as part of RCA's established practices, training programs, seminars, workshops, and other activities related to the use of Small and Small Disadvantaged Businesses will be scheduled during the term of the contract.

The specific duties of the Minority and Small Business Coordinator in carrying out these steps is as follows:

A. Inform and assist Buyers in locating and using appropriate small and small disadvantaged business sources of supply.

B. Respond to inquiries from potential vendor and ensure they are brought together with Buyers and other appropriate people who may be able to employ their products and services.

C. Review subcontract potential for small and small disadvantaged business participation on specific contracts.

D. Participate in make-or-buy decisions and identify maximum practical opportunities for these firms.

E. Participate in establishment of relevant subcontract goals and monitor performance.

F. Collect data and report on achievements as required.

G. As RCA's representative, attend monthly National Minority Supplier Development Council (formerly Minority Purchasing Council) meetings, attend trade fairs and seminars for small and small disadvantaged business concerns.

H. Assist in development of seminars that cover updating of Public Law 95-507 requirements and programs to assist Buyers in expanding contracts with small and small disadvantaged business concerns.

I. Report directly to the Director of Purchasing for the division or subsidiary, who is an active member of RCA Corporation's Minority Business Advisory Group.

RCA passes down all required clauses as stated in the applicable Defense Acquisition Regulations in all subcontracts which offer further subcontract opportunities (as required by PL95-507). RCA reviews and approves subcontractor plans for subcontracts awarded in excess of $500,000. In addition, RCA monitors performance of such subcontractors through the use of reports such as the Subcontracting Report for individual contract, Standard Form 294 (which is required semiannually).

During the course of the program we continue to seek other qualified firms to support RCA, depending on task assignment and required specialties.

RCA continuously requests and utilizes the Small Business Administration's "Procurement Automated Source System" in order to locate and develop the maximum amount of Small Businesses and economically and socially disadvantaged suppliers for materials or services to meet our requirements.

The Government contracts of RCA Service Company are under the cognizance of Defense Contract Administration Services Plant Representative Office (DCAS-PRO) in Moorestown, New Jersey. Mr. T. M. White, as Corporate Administrative Contracting Officer in this office, administers RCA contracts, subcontracts, and purchasing. The CACO reviewed the following RCA Service Company procedures and approved them on the date indicated:

Property Control Procedures	3 August 1976
Purchasing System (including Purchase Orders and Subcontracts	April 1984
Small Business and Labor Surplus Area Subcontracting Programs	15 September 1981

RCA submits quarterly reports to the Contracting Officer, and/or others so specified, on purchases from small and small disadvantaged concerns. These are compared with the negotiated goals set forth in the contract. Any particular problems which may cause concern will also be reported to ensure that RCA is in compliance with the contract requirements.

RCA also maintains the following records:

- Number of small and small disadvantaged businesses solicited.
- Number of small and small disadvantaged business bids rejected together with the rationale for the decision.
- Number of orders, including dollar volume, awarded during the performance of a contract.
- Monthly measures of purchases measured against contract goals.
- Listing of all known small and small disadvantaged businesses, subdivided into commodity classifications.
- Monthly reports to RCA Corporate Staff.
- RCA complies with all other reporting requirements of DAC-76-24, paragraph 7-104.14(b)(6).
- RCA Purchasing Activities submit monthly reports stating the number of orders/subcontracts and total value of them, including categorization by Small and Small Disadvantaged Businesses, plus identification of vendors. Also recorded is a summary of efforts expended to locate and utilize Small and Small Disadvantaged vendors. This information forms the basis of complying with PL95-507 requirements, use in SBA reviews and the development of source lists. Existing source lists, such as RCA's PSAS, SBA's PASS, and the Minority Supplier Development Council's VIS, are augmented accordingly.

In order to provide more amplification and detail on RCA's small and minority business enterprise program, I have attached to my statement copies of RCA's principal policy and implementation documents on this subject.

The attachments are as follows:

Attachment A - RCA Corporate Policy - RCA Minority Business Enterprise Program

Attachment B - RCA Purchasing Manual - Minority Business Enterprise Program

Attachment C - RCA Purchasing Manual - Procurements from Small and Small Disadvantaged Business Concerns

Attachment D - RCA Purchasing Manual - Small Business Checklist

Attachment E - RCA Service Company Procedure - Requirements for the Utilization of Small and Small Disadvantaged Business Concerns Program

I would now like to address the specific questions which you have posed concerning RCA Service Company's implementation of Public Law 95-507.

1. A DESCRIPTION OF YOUR COMPANY'S SUBCONTRACTING PROGRAM.

The previously discussed material provides an overview of our subcontracting policies and procedures for implementation of 95-507. More detailed information may be found at Attachments A through E.

2. (a) PROVIDE THE TOTAL DOLLAR VALUE OF ALL FEDERAL PRIME CONTRACTS RECEIVED FOR EACH OF THE PAST THREE YEARS.

We believe that because of the manner of funding for prime contract awards which may vary from month to month or on a multi-year basis, these data are not a meaningful measure of subcontract activity. A more precise measure of this activity may be found in the actual billings or recorded sales to the Federal Government for prime contracts. These billings were as follows:

	$ Millions
Calendar Year 1981	219.5
1982	238.8
1983	289.4

(b) PROVIDE THE DOLLAR VALUE, THE NUMBER OF SUBCONTRACTS AND PERCENT OF ALL SUBCONTRACT AWARDS AWARDED TO SMALL AND SMALL DISADVANTAGED BUSINESS FOR EACH OF THE PAST THREE YEARS.

Calendar Year		No. Awards	$ Value (Millions)	% No. Awards	% $ Awards
1981	SB	19,875	18.6	76.2	60.9
	SDB	737	1.6	2.8	5.3
1982	SB	25,677	27.8	76.2	67.0
	SDB	762	1.2	2.2	2.8
1983	SB	34,398	26.0	76.0	61.0
	SDB	731	1.5	1.7	3.4

3. TO WHAT EXTENT ARE SMALL AND SMALL DISADVANTAGED BUSINESS PROGRAM ACCOMPLISHMENTS TAKEN INTO ACCOUNT WHEN EVALUATING THE PERFORMANCE OF YOUR ACQUISITION PERSONNEL?

Small and Small Disadvantaged Business program accomplishments like savings, the ability to meet operational performance requirements and adherence to contractual requirements and Company Procurement Policy and Procedure are all factors taken into account when evaluating the performance of RCA Service Company acquisition personnel. Although no specific evaluation percentages are assigned to any of the above-mentioned categories, evaluation is based on the individual's total performance. Those areas that are below what is considered nominal or average are brought to the individual's attention and he/she will be counselled to bring performance up to an acceptable level.

4. WHAT TRAINING DO YOU PROVIDE YOUR PERSONNEL FOR THE IMPLEMENTATION OF YOUR COMPANY'S SUBCONTRACTING PROGRAM?

All procurement personnel are provided an initial two-week training program that covers all facets of procurement with heavy emphasis on subcontracting. During this time, the goals established for RCA Service Company and a particular contract (if applicable) are reviewed and discussed. Information regarding where and how to locate small and small disadvantaged business is disseminated at this time (i.e. local Small Business Administration Office, The Try-Us Publication, Corporate resources that list companies by size and type designations, and information available from the Division Minority and Small Business Coordinator).

Corporate and Company Procurement Seminars are provided each year to provide current methods and practices of accomplishing the procurement function. Subcontracting and implementation of the subcontracting program is an integral part of these programs. Procurement personnel are encouraged to take advantage of local seminars given by Government Agencies, and independent training organizations, such as Procurement Associates and the American Management Association, with regard to this area of procurement.

A Corporate seminar is scheduled for October and a Division seminar/workshop is scheduled for May/June of 1984.

5. DESCRIBE HOW YOUR COMPANY CHANGED ITS SUBCONTRACTING PROGRAM SINCE THE PASSAGE OF PL 95-507.

Although RCA has had a formal active Small and Minority Business Enterprise Program since 1970, the passage of PL 95-507 has caused the program to become more formalized and structured. Each contract location is required to report on actual performance versus the goals established in our subcontracting plans for each contract. Prior to the passage of PL 95-507, goals were established by RCA on a project-by-project basis similar to what occurs now. Also, a formal coordinator was established with passage of PL 95-507 to provide counsel, guidance and assistance to our project offices.

Thank you, Mr. Chairman, for the opportunity to present our statement to you and other members of the subcommittee. I will be glad to answer any questions that you may have at this time, or to provide any additional data for the record.

RCA Policy

Number
22109

Approved
1/2/79

Subject
RCA MINORITY BUSINESS ENTERPRISE PROGRAM

Supersedes
Initial

POLICY

1. This Policy reaffirms RCA's longstanding commitment to ensure that minority-owned businesses have an equal opportunity to compete for a fair and equitable portion of RCA's purchases.

    a. A minority business enterprise is a business enterprise that is owned or controlled by one or more socially or economically disadvantaged persons. Such disadvantages may arise from cultural, racial, chronic economic circumstances or background, or other similar causes. Such persons include, but are not limited to, Blacks, Orientals, Puerto Ricans, Spanish-speaking Americans, American Indians, Eskimos, and Aleuts. Minority business enterprises in Hawaii, Puerto Rico, and Guam qualify under this definition.

    b. These purchases include not only the materials and services normally purchased by the Purchasing activity, but also include such services as are required for advertising, banking, insurance, consulting, marketing, personnel services, etc.

2. RCA Corporation, its divisions and subsidiary companies, will aggressively seek out minority owned business and as appropriate assist and counsel them in becoming qualified suppliers of goods and services. The use of minority owned businesses will be encouraged at all levels of RCA business activity where specific decisions are made regarding the purchase of goods and services.

3. Corporate Materials is responsible for overall direction and monitoring of the RCA Minority Business Enterprise Program in accordance with instructions in the RCA Purchasing Manual. Corporate Materials will coordinate this program with the Corporate Community Relations Program and the Government Relations Program.

4. Each Major Operating Unit will actively promote the RCA Minority Business Enterprise Program among its executives, requisitioning functions and purchasing personnel. Each unit will develop and monitor goals and specific programs designed to increase purchases from minority businesses.

5. Purchases under Government contracts will be handled in accordance with applicable government regulations and directives.

ATTACHMENT A

RESPONSIBILITIES

6. In coordinating the Minority Business Enterprise Program, Corporate Materials will be guided by RCA Policy 22101, Purchasing, and will:

   a. With the assistance of the Major Operating Unit, develop guidelines, goals and action plans to meet Program objectives.

   b. Assist Major Operating Units in advancing this program, working with the Minority Business Enterprise Program Coordinator in each unit.

   c. Revise program instructions to the RCA Purchasing Manual.

   d. Work with other RCA Staff activities as appropriate to assure coordination of the program with RCA's Community Relations and Government Relations Programs.

   e. Develop periodic reports on program performance for the information of RCA Executives and Major Operating Unit management, and the Purchasing community.

IMPLEMENTATION

7. Each Major Operating Unit will:

   a. Assign a Minority Business Enterprise Coordinator to direct the unit's program and to work with Corporate Materials.

   b. Be guided by Purchasing Procedure C-12007 in the RCA Purchasing Manual.

   c. Issue internal procedures, if required.

   d. Provide statistics and other information on program performance.

8. The Staff Vice President, Materials, will provide any interpretation of this policy that may be required.

RCA

Purchasing Manual

Number C-12007

Issued 2/28/79

Supersedes 3/23/77

Subject MINORITY BUSINESS ENTERPRISE PROGRAM

Page 1

In accordance with RCA Policy 22109, this instruction describes RCA's policy and procedure regarding purchases from minority business enterprises.

A. DEFINITION

A minority business enterprise is a business enterprise that is owned or controlled by one or more socially or economically disadvantaged persons. Such disadvantages may arise from cultural, racial, chronic economic circumstances or background, or other similar causes. Such persons include, but are not limited to, Blacks, Orientals, Puerto Ricans, Spanish-speaking Americans, American Indians, Eskimos, and Aleuts. Minority business enterprises in Hawaii, Puerto Rico, and Guam qualify under this definition.

B. GENERAL

RCA will place a fair portion of its total purchases for all types of goods and services with qualified minority business enterprises. This portion of total purchases shall be that portion which a minority business can win in a competitive environment. These purchases include not only material and services normally purchased by the Purchasing activity but also include such services as required and contracted for by other activities.

Each division or subsidiary Purchasing activity is responsible for gathering and reporting information regarding business transactions with minority businesses.

C. PROCEDURE

1. Each Major Operating Unit Purchasing activity will:

   a. Designate a liaison officer who shall administer the Purchasing Minority Business Enterprise Program and interface with the Major Operating Unit Minority Business Enterprise Coordinator.

   b. Aggressively seek out minority owned businesses and, as appropriate, assist and counsel them in becoming qualified suppliers of goods and services.

ATTACHMENT B

c. Assure that minority businesses have an equal opportunity to compete for subcontracts and purchase orders by arranging solicitations, interviews, bid preparation times, quantities, specifications, and delivery schedules to facilitate the participation of minority business enterprises.

d. Maintain records showing internal procedures which have been adopted to comply with RCA Policy 22109 and this Instruction, including the establishment of a source-list of minority business enterprises.

e. Complete in triplicate on a monthly basis the Minority Business Enterprise (MBE) Monthly Report Form RCA 2638 (Exhibit A attached) to furnish information regarding:

(1) Names and addresses of minority business enterprises with which purchase orders were placed during the month.

(2) The activity that placed the requirement (i.e. Purchasing for those items covered by a purchase order).

(3) A description of the material or service purchased.

(4) The number of orders placed and total dollar value of these orders for each vendor named, and the totals for the month.

(5) Any other information pertinent to this Program including but not limited to specific efforts to identify, assist, counsel and award Purchase Orders to minority business enterprises.

One copy of this report will be sent to the Corporate Minority Business Enterprise Coordinator. One copy will be included as part of each activity's Monthly Activity Report and an information copy will be retained by the Major Operating Unit Minority Business Liaison Officer.

2. Corporate Staff Materials will, through its Minority Business Enterprise Liaison Officer:

a. Make minority businesses known to the Major Operating Units through periodic Minority Business Bulletins as well as other appropriate means of communications.

b. Keep Corporate records of business placed with minority business enterprises that originates not only from the purchasing activity but from other areas as well.

c. Interface with all agencies of the Government relative to reports and surveys on minority business matters.

d. Develop guidelines, goals and action plans to meet Program objectives with the assistance of the Major Operating Units.

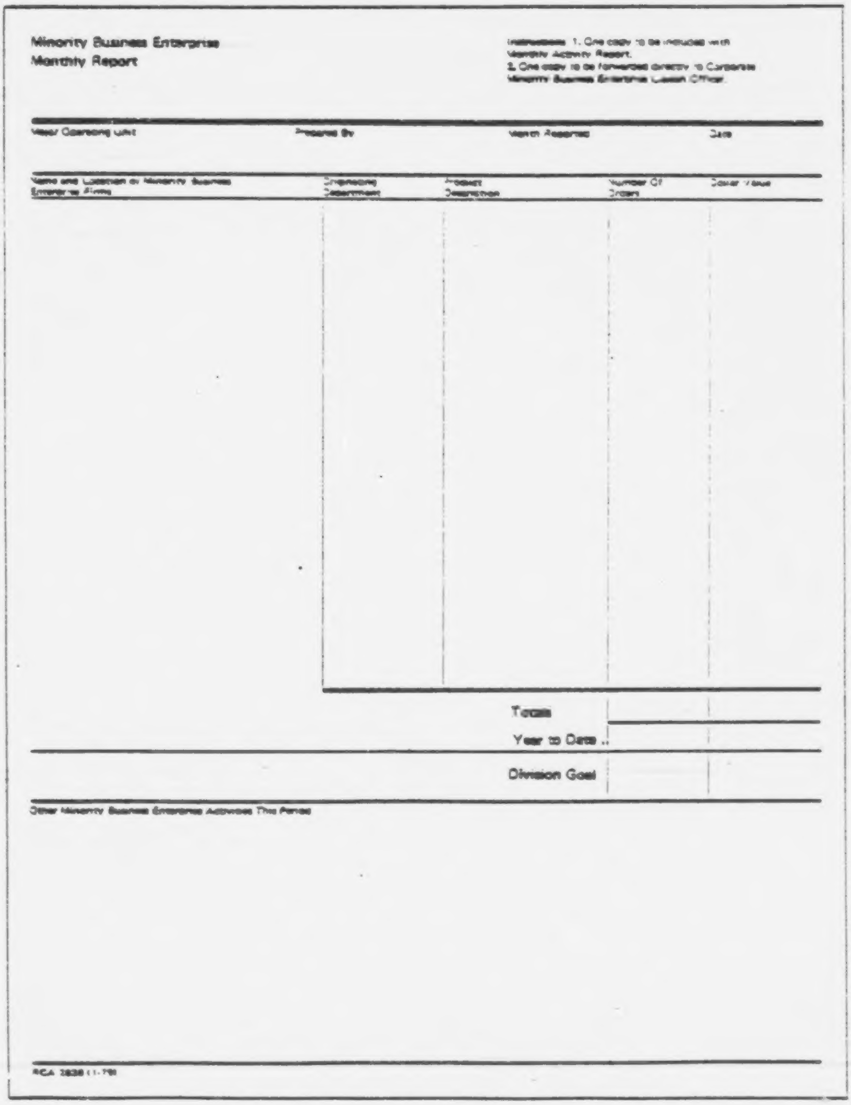
e. Assist Major Operating Units in advancing this program, working with the Minority Business Enterprise Program Coordinator in each unit.

f. Work with other RCA Staff activities as appropriate to assure coordination of the program with RCA's Community Relations and Government Relations Programs.

g. Develop periodic reports on program performance for the information of RCA Executives and Major Operating Unit management, and the Purchasing community.

EXHIBIT A

FORM RCA 2638 MINORITY BUSINESS ENTERPRISE MONTHLY REPORT



**Minority Business Enterprise
Monthly Report**

Instructions: 1. One copy to be included with Monthly Activity Report.
2. One copy to be forwarded directly to Corporate Minority Business Enterprise Liaison Officer.

Major Operating Unit	Prepared By	Month Reported	Date

Name and Location of Minority Business Enterprise Firms	Originating Department	Product Description	Number Of Orders	Dollar Value
		Totals		
		Year to Date ..		
		Division Goal		

Other Minority Business Enterprise Activities This Period

RCA 2638 (1-79)

RCA
Purchasing Manual

Number G-12321
Issued 11/10/80
Supersedes 4/23/80

Subject
PROCUREMENTS FROM SMALL AND SMALL DISADVANTAGED BUSINESS CONCERNS

Page 1

This Instruction describes requirements imposed by Public Law 95-507 for the utilization of small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals. It is RCA policy to comply fully with these requirements.

A. INTRODUCTION

1. P.L. 95-507, Section 211, implemented by the Defense Acquisition Regulation (DAR) in Sections 1-707 and 7-104 (a) - (d) and by the Federal Procurement Regulations (FPR) in Temporary Regulation 50, requires that in all U.S. Government contracts and subcontracts over $10,000 in amount* a specific clause (entitled Utilization of Small Business and Small Disadvantaged Business Concerns) be included; the clause expresses the contractor's and subcontractor's agreement to carry out the policy of the United States in the awarding of subcontracts to small business and small disadvantaged business concerns to the fullest extent consistent with the efficient performance of the contract. This clause is incorporated in Supplement "A", see Purchasing Manual Instruction G-12306, Exhibit A, and in Supplement "CR", see Purchasing Manual Instruction G-12319, Exhibit A.

2. P.L. 95-507, Section 211, implemented by DAR and FPR as cited in paragraph A.1. above, also requires that in all solicitations for Government contracts or contract modifications which (a) offer subcontracting possibilities, (b) may exceed $500,000 in amount (or $1,000,000 in amount, if for construction), and (c) are required to include the clause cited in paragraph A.1. above a clause be included notifying offerors or bidders that a small business and small disadvantaged business subcontracting plan will be negotiated with the successful offeror or submitted by the low bidder. The clause is incorporated by reference in Supplement "A" and in full text in Supplement "CR."

3. Any RCA business unit awarded a U.S. Government contract or subcontract containing the clause referred to in paragraph A.1. above or seeking award of a U.S. Government contract or subcontract under a solicitation containing the clause cited in paragraph A.2. above must comply with the applicable clause or clauses.

*Except those which, including all subcontracts, will be performed entirely outside of any State, territory or possession of the United States, the District of Columbia, or the Commonwealth of Puerto Rico, or those which are for services personal in nature.

ATTACHMENT C

B. RESPONSIBILITIES

1. It is the responsibility of the Senior Materials or Purchasing Manager of each RCA business unit doing business with the U.S. Government to ascertain the applicability of this Instruction and to assure that the requirements of this Instruction are met.

2. The Senior Materials or Purchasing Manager of each business unit doing business with the U.S. Government will appoint a Small and Small Disadvantaged Business Coordinator, who will promote and monitor maximum utilization of small and small disadvantaged businesses as vendors and subcontractors under Government contracts and subcontracts awarded to that business unit.

3. The Small and Small Disadvantaged Business Coordinator will coordinate for the business unit the preparation of the subcontracting plan to be submitted or negotiated in response to the clause cited in paragraph A.2. and will assist the business unit Marketing or Contract Administration representative in gaining the Contracting Officer's or higher-tier Government contractor's acceptance of the plan.

4. The Director, Government Procurement Programs RCA Staff will provide any further interpretation of this Instruction that may be required.

C. DEFINITIONS AND CRITERIA

1. As used in P.L. 95-507, the implementing DAR and FPR regulations, and this Instruction, the following meanings apply:

   "Small business concern" - a small business as defined pursuant to Section 3 of the Small Business Act and relevant regulations promulgated pursuant thereto;

   "Small business concern owned and controlled by socially and economically disadvantaged individuals" - a small business concern (1) which is at least 51 per cent owned by one or more socially and economically disadvantaged individuals or, in the case of any publicly owned business, at least 51 per cent of the stock of which is owned by one or more socially and economically disadvantaged individuals, and (2) whose management and daily business operations are controlled by one of more of such individuals.

2. A U.S. Government contractor or subcontractor acting in response to the clauses cited in paragraphs A.1. and A.2. above shall presume that socially and economically disadvantaged individuals include Asian-Pacific Americans (i.e., U.S. citizens whose origins are from Japan, China, the Philippines, Vietnam, Korea, Samoa, Guam, the U.S. Trust Territories of the Pacific, Northern Marianas, Laos, Cambodia, or Taiwan), Black Americans, Hispanic Americans, Native Americans (such as American Indians, Eskimos,

Aleuts and Native Hawaiians), and other minorities, or any other individuals found to be disadvantaged by the U.S. Small Business Administration pursuant to Section 8 (a) of the Small Business Act.

3. An RCA business unit acting in good faith may rely on a written representation by its subcontractor regarding the subcontractor's status as either a small business concern or a small business concern owned and controlled by socially and economically disadvantaged individuals.

4. "Women-owned business" - To qualify as a small disadvantaged business, a women-owned business must be a small business concern at least 51 per cent owned and controlled by one of more socially and economically disadvantaged individuals; majority ownership and control by one of more women is insufficient. (Purchasing from women-owned businesses is not required by P.L. 95-507. However, the Government report forms require reporting that statistic, along with other statistics not a part of the law, such as those on doing business with foreign, non-profit, and labor surplus concerns. The women-owned business effort is in response to Executive Order 12138.)

5. Other individuals may qualify as socially and economically disadvantaged under procedures established by the U.S. Small Business Administration, using these guidelines:

   a. Socially disadvantaged individuals are those individuals who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as a member of a group without regard to their individual qualities.

   b. Economically disadvantaged individuals are those socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired because of diminished capital and credit opportunities as compared to others in the same business area who are not socially disadvantaged.

6. The Office of Minority Small Business and Capital Ownership Development in the Small Business Administration will answer inquiries from prime contractors and others concerning the class of eligibles.

7. Subcontracting plans are not required of small business concerns.

D. SUBCONTRACTING PLANS

1. When RCA is the apparent successful offeror in response to a solicitation containing a requirement for negotiation of a small and small disadvantaged business subcontracting plan, it must submit and negotiate a subcontracting plan which addresses separately subcontracting with small business concerns and small

disadvantaged business concerns and which shall be made a part of the resultant contract. Failure to submit and negotiate the subcontracting plan shall make RCA ineligible for award. As a minimum, the plan shall include:

▷ a. Separate percentage goals (expressed in terms of percentage of total planned subcontracting dollars) for the utilization as subcontractors of small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals. To be included are all subcontracts to be awarded in performance of the contract; there may be included a proportionate share of supplies and services whose costs are normally allocated as indirect or overhead costs when reasonably determined to be attributable to the contract.

   (1) A statement of: (i) total dollars planned to be subcontracted; (ii) total dollars planned to be subcontracted to small business; and (iii) total dollars planned to be subcontracted to small disadvantaged business.

   (2) A description of the principal supply and service areas to be subcontracted and an identification of those areas where it is planned to use (i) small business subcontractors, and (ii) small disadvantaged business subcontractors.

   (3) A statement of the method used in developing proposed subcontracting goals for small business and small disadvantaged business concerns.

   (4) If the offeror includes indirect and overhead costs as an element in establishing the goals in the subcontracting plan, the method used in determining the proportionate share of indirect and overhead costs incurred with (i) small business, and (ii) small disadvantaged business subcontractors shall be explained.

   (5) A statement of the method used for solicitation purposes (e.g., did the offeror use company source lists, the small business and disadvantaged small business source identification system provided by the Small Business Administration's Procurement Automated Source System, the National Minority Purchasing Council Vendor Information Service, or the services provided by the U.S. Department of Commerce Minority Business Development Agency's Research and Information Division, and the facilities of small business and disadvantaged business trade associations?).

▷ Denotes change or addition

b. The name of the individual within the employ of the offeror who will administer the subcontracting plan and a description of the duties of the individual.

c. A description of the efforts the offeror will make to assure that small business and small disadvantaged business concerns will have an equitable opportunity to compete for subcontracts.

d. Assurances that the offeror will include the clause entitled Utilization of Small Business and Small Disadvantaged Business Concerns in all subcontracts which offer further subcontracting possibilities in the United States and will require all subcontractors (except small business concerns) who receive subcontracts in excess of $500,000, or in the case of a contract for the construction of any public facility, $1 million, to adopt a plan in consonance with this clause.

e. Assurances that the offeror will submit such periodic reports and cooperate in any studies or surveys as may be required by the contracting agency or the Small Business Administration in order to determine the extent of compliance by the offeror with the subcontracting plan.

f. A recitation of the types of records the offeror will maintain to demonstrate procedures which have been adopted to comply with the requirements and goals set forth in the plan, including the establishment of source lists of small business and small disadvantaged business concerns; and efforts to identify and award subcontracts to such small business concerns. The records shall include at least the following (these records may be maintained on a plant-wide or company-wide basis unless otherwise indicated).

   (1) Small and disadvantaged business source lists, guides, and other data identifying small and small disadvantaged business vendors.

   (2) Organizations contacted for small and disadvantaged business sources.

▷ (3) On a contract-by-contract basis, records on all subcontract solicitations over $100,000, indicating on each solicitation (i) whether small business was solicited and if not, why not; (ii) whether small disadvantaged business was solicitated and if not, why not; and (iii) reasons for the failure of responding small businesses or small disadvantaged businesses to receive the subcontract award.

▷ Denotes change or addition

(4) Records to support such efforts as:

  - (i) contacts with disadvantaged and small business trade associations;
  - (ii) contacts with business development organizations; and
  - (iii) attendance at small and disadvantaged business procurement conferences and trade fairs.

(5) Records to support internal activities to guide and encourage buyers such as:

  - (i) workshops, seminars, training programs, etc., and
  - (ii) monitoring activities to evaluate compliance.

(6) On a contract-by-contract basis, records to support award data submitted to the Government to include name, address, and size status of subcontractor.

2. When RCA is the apparent low bidder in response to a formally advertised solicitation containing a requirement for submission of a small and small disadvantaged business subcontracting plan, it shall submit such a plan upon request. Failure to submit the subcontracting plan shall make RCA ineligible for award. As a minimum, the plan shall satisfy the requirements described in paragraph D.1. a.-f.

E. IMPLEMENTATION OF SUBCONTRACTING PLAN

In order to implement effectively the plans described in paragraph D.1. and D.2., the contract clause provides that the contractor shall:

1. Issue and promulgate company wide policy statements in support of this effort, develop written procedures and work instructions, and assign specific responsibilities regarding requirements of this clause.

2. Demonstrate continuing management interest and involvement in support of this effort through such actions as regular reviews of progress and establishment of overall corporate and divisional goals and objectives.

3. Train and motivate contractor personnel regarding the support of small and small disadvantaged business firms.

4. Assist small business and small disadvantaged business concerns by arranging solicitations, time for the preparation of bids, quantities, specifications, and delivery schedules so as to facilitate the participartion by such concerns. When the Contractor's lists of potential small business and disadvantaged subcontractors are excessively long, reasonable effort shall be made to give all such small business concerns an opportunity to compete over a period of time.

5. Provide adequate and timely consideration of the potentialities of small business and small disadvantaged business concerns in all "make-or-buy" decisions.

6. Counsel and discuss subcontracting opportunities with representatives of small and small disadvantaged business firms as are referred by the Small and Disadvantaged Business Utilization Specialist responsible for monitoring performance under this program and representatives of the SBA.

F. EFFECT OF NONCOMPLIANCE

The failure of any contractor or subcontractor to comply in good faith with the clause described in paragraph A.1. when the clause is incorporated in the contract or the subcontract or with an approved plan required as stated in paragraph D.1. or D.2. will be a material breach of the contract or subcontract.

G. REPORTS

Requirements for this section will be incorporated upon release of the regulations and instructions pertaining to the issuance of reports.

RCA
Purchasing Manual

Number G-12304
Issued 12/20/83
Supersedes 6/17/83
Page 1

Subject SMALL BUSINESS CHECK LIST

▷ A. GENERAL

This Instruction describes the procedure for Purchasing personnel to follow for all procurements valued at $100,000 or more which are pursuant to Government contracts or subcontracts.

▷ B. RESPONSIBILITY

1. All Buyers must assure that small business firms are given fair and reasonable consideration prior to the award of each Purchase Order or subcontract. To carry out RCA's Small Business Policy, the Buyer must substantiate his or her actions by completing the Small Business Check List, Form RCA 329 (Exhibit A) for all purchases of $100,000 or more which are pursuant to Government contracts or subcontracts.
2. If the Buyer has problems obtaining small business sources, assistance may be received from the U.S. Small Business Administration.
3. The Buyer's Manager will review and approve each Small Business Check List.
4. Prepare a Small Business Check List for each Purchase Change Order of $100,000. The original Small Business Check List for each order exceeding $100,000 should be issued for full dollar value of the Purchase Order even though the total funded may be restricted. A Check List need not be issued to cover an incremental funding release.
5. Do not prepare the Small Business Check List for Inter-Divisional Transactions or for procurements from a nonprofit organization.

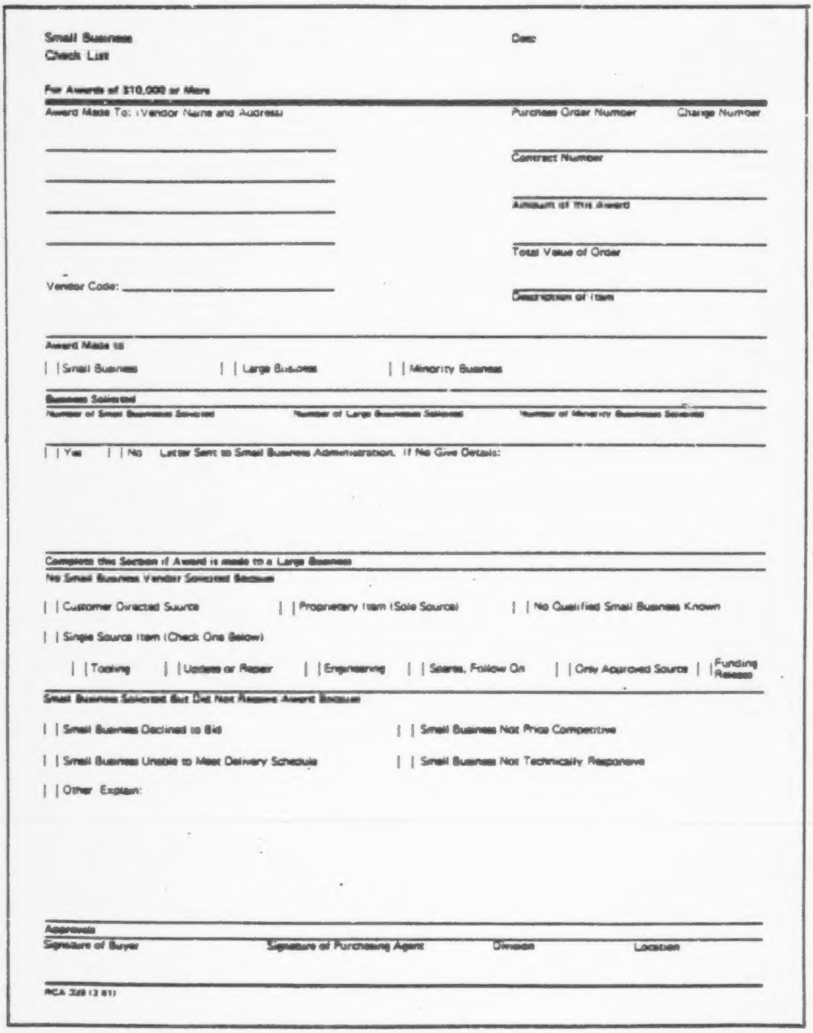
Denotes change or addition

6238C

ATTACHMENT D

EXHIBIT A

FORM RCA 329, SMALL BUSINESS CHECK LIST*



Small Business
Check List

Date:

For Awards of $10,000 or More

Award Made To: (Vendor Name and Address)

Purchase Order Number

Change Number

Contract Number

Amount of this Award

Total Value of Order

Description of Item

Vendor Code: ______

Award Made to

☐ Small Business ☐ Large Business ☐ Minority Business

Business Solicited

Number of Small Business Solicited

Number of Large Businesses Solicited

Number of Minority Businesses Solicited

☐ Yes ☐ No Letter Sent to Small Business Administration. If No Give Details:

Complete this Section if Award is made to a Large Business

No Small Business Vendor Solicited Because

☐ Customer Directed Source ☐ Proprietary Item (Sole Source) ☐ No Qualified Small Business Known

☐ Single Source Item (Check One Below)

☐ Tooling ☐ Update or Repair ☐ Engineering ☐ Spares, Follow On ☐ Only Approved Source ☐ Funding Release

Small Business Solicited But Did Not Receive Award Because

☐ Small Business Declined to Bid ☐ Small Business Not Price Competitive

☐ Small Business Unable to Meet Delivery Schedule ☐ Small Business Not Technically Responsive

☐ Other Explain:

Approvals

Signature of Buyer

Signature of Purchasing Agent

Division

Location

RCA 329 (3 81)

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*To be revised. This form will be used until current supplies are exhausted.

RCA Service Company

Number
6-25
Issue Number
1
Effective
5/28/80

Procedure

Subject
Requirements for the Utilization of Small and Small Disadvantaged Business Concerns Program

Scope: Government Contracts Contracting, Marketing and Purchasing activities.

Purpose: To implement RCA's policy regarding the utilization of small business concerns and small disadvantaged busine concerns in the performance on government contracts which invoke PL95-507.

Form: Small Business Check List (Form RCA 329)

Definitions: Small Business Concern - A small business as defined i the Small Business Act and relevant regulations including DAR and FPR. A small business concern is independently owned and operated and is not dominant in the field of operation in which it is bidding for work. I general, a small business concern will have no more than 500 employees.

Small Disadvantaged Business Concern - A small busines concern:

a. Which is at least 51% owned by one or more sociall and economically disadvantaged individuals; or in the case of any publicly owned business, at least 51% of the stock of which is owned by one or more socially and economically disadvantaged individual

b. Whose management and daily business operations are controlled by one or more such individuals. Such individuals include Asian Americans, Black America Hispanic Americans, Native Americans, (such as Ame ican Indians, Eskimos, Aleuts and Native Hawaiians and other minorities, or any other individuals fou to be disadvantaged pursuant to the Small Business Act.

c. A firm may self-certify, in writing, as to its status which will be accepted at face value.

PL95-507 - Public Law 95-507 requires that on U.S. government contracts over $10,000 the contractor (RCA Service Company), by acceptance of the contract, agree to award subcontracts to small business and small disadvantaged business concerns to the fullest extent consistent with efficient performance on the contract.

ATTACHMENT E

Index:

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Procedure:

A. Policy

It is RCA's policy to ensure that small business concerns and small disadvantaged business concerns have an equal opportunity to engage in open competition for a full and equitable portion of purchases. RCA Service Company is committed to an aggressive pursuit of this policy. Specifications, drawings, and other pertinent data will be made available to technically and financially competent small disadvantaged business concerns for their use in the preparation of bids. All efforts will be made to locate such businesses and to assist and counsel potentially qualified suppliers, as appropriate and practicable.

B. General

1. RCA Service Company, upon receipt of RFP or IFB or upon award of a U.S. government contract or subcontract invoking PL95-507 must:

   - Award subcontracts to small business and small disadvantaged business concerns to the fullest extent consistent with the efficient performance of any contract over $10,000.

   - In addition, for each contract $500,000 or more ($1,000,000 or more for construction), submit and negotiate an acceptable subcontracting plan for small and small disadvantaged business concerns. Included in this plan will be separate percentage goals for each type of business concern and a comprehensive description of efforts to be made to achieve these goals.

2. Purchasing will take the following action to assure compliance with the above requirements.

   - Train and motivate contractor personnel regarding the support of small and small disadvantaged business firms.

- Assist small business and small disadvantaged business concerns by preparing complete solicitations outlining quantities, descriptions, specifications and delivery information and to allow adequate time for response to such solicitations so as to facilitate their participation. Maximum utilization of such business concerns will be made. Reference sources for such concerns are: SBA, PASS; National Supplier Development Council, VIS System; RCA, PSAS System; and other sources developed thru reference to other agencies.

- Provide adequate and timely consideration of the potentialities of small business and small disadvantaged business concerns in all "make-or-buy" decisions.

- Counsel and discuss subcontracting opportunities with representatives of small and small disadvantaged business firms as are referred by the Small and Disadvantaged Business Utilization Specialist responsible for monitoring performance under this program and representatives of the SBA.

C. Responsibilities

1. Government Services Marketing.

Upon receipt of a solicitation, Request For Proposal (RFP) or Invitation For Bid (IFB), invoking PL95-507:

- Immediately advise the Purchasing activity identifying the RFP/IFB with appropriate references. Include any requirement that may specify specific relationships with a PCO/ACO or designate a SBA Regional Office for the control or reporting aspects of PL95-507.

- Furnish Purchasing with any specific data contained therein which details the use of small or small disadvantaged business concerns.

- Request Purchasing to develop a small and small disadvantaged business subcontracting plan for inclusion in the proposal.

2. Government Services Contracting and Operations Analysis.

a. Upon award of a contract in which PL95-507 was included in the proposal:

    - Furnish Home Office Purchasing and applicable Field Office Purchasing with a copy of the Contract Information Summary (CIS) as notification of the PL95-507 requirement.

- The CIS is to include Contract and Proposal number identification and any requirement to implement a negotiated subcontracting plan. If contract changes require the submission of a revised subcontracting plan, notify Purchasing.

b. For contract awards where a PL95-507 subcontracting plan was not previously submitted or when an existing contract is modified to invoke PL95-507:

- Furnish Home Office Purchasing and applicable Field Office Purchasing with a CIS containing the information shown above.

- Request Home Office Purchasing to develop a subcontracting plan.

c. Negotiate all developed subcontracting plan with the appropriate PCO/ACO.

3. Home Office Purchasing.

a. Prepare all PL95-507 subcontracting plans.

b. Be the sole RCA Service Company point-of-contact for all reports, questions, audit and audit review contacts including RCA Staff Materials and the SBA regarding the implementation of PL95-507.

c. The following will be utilized when preparing a subcontracting plan:

- Separate percentage goals (expressed in terms of percentage of total planned subcontracting dollars) for the utilization as subcontractors of small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals. To be included are all first-tier subcontracts to be awarded in performance of the contract, including a proportionate share of products, services, etc., whose costs are normally allocated as indirect or overhead costs when reasonably determined to be attributable to the contract.

- The name of the individual who will administer the subcontracting plan and a description of the duties of the individual.

- A description of the efforts which will be made to assure that small business and small disadvantaged business concerns will have an equitable opportunity to compete for subcontracts.

- Assurances that the clause entitled Utilization of Small Business and Small Disadvantaged Business Concerns will be inserted in all subcontracts which offer further subcontracting opportunities and will require all subcontractors (except small business concerns) who receive subcontracts in excess of $500,000, or in the case of a contract for the construction of any public facility, $1 million, to adopt a plan in consonance with this clause.

- Assurances that we will submit such periodic reports and cooperate in any studies or surveys as may be required by the contracting agency or the Small Business Administration in order to determine the extent of compliance by the offeror with the subcontracting plan.

- A recitation of the types of records which will be maintained to document routines which have been adopted to comply with the requirements and goals set forth in the plan, including the establishment of source lists of small business and small disadvantaged business concerns; and efforts to identify and award subcontracts to such small business concerns.

d. Develop new programs and monitor existing programs designed to increase purchases from small and small disadvantaged business concerns.

e. Establish and use a source list of small and small disadvantaged business concerns.

f. Field and Home Office Purchasing, as appropriate, complete for each purchase order with a value of $10,000 or more, based on a government contract, the appropriate sections of the Small Business Check List (RCA Form 329). The original is to be sent to RCA Small Business Liaison Officer, duplicate is filed in the purchase order folder.

g. Prepare and submit to the appropriate PCO and/or cognizant agency necessary reports as required by PL95-507.

  - A quarterly report showing progress to date on each contract.

  - A quarterly report showing progress on all agency (DoD, DOL, NASA, etc.) contracts.

Mr. Mitchell. Mr. Williams.

TESTIMONY OF EARLE C. WILLIAMS, PRESIDENT, BDM INTERNATIONAL, INC.

Mr. Williams. Thank you, Mr. Chairman. I appreciate the opportunity to appear before the committee here today to describe how BDM International has been implementing the provisions of Public Law 95-507 regarding subcontracting to small and small disadvantaged businesses.

We, too, have prepared formal testimony which has been submitted to you in advance, and I ask that that be made part of the record.

Mr. Mitchell. It will be entered into the record in its entirety, without objection.

Mr. Williams. The statistics that you asked for, in general, have been included in that formal testimony, and I am not going to concentrate on those matters during my relatively brief comments here to you this morning.

I am Earle Williams, president and chief executive officer of BDM. I joined BDM in 1962, when our sales were $269,000 and we had 17 employees. I joined as an engineer and, since that time, I have done practically every job in the company, including emptying the waste baskets, running the printing press, being the payroll clerk, and practically everything else.

At the end of 1983, BDM sales were $151 million and we had over 3,000 employees. I have been part of that growth process, whereby BDM moved from a small business enterprise to a midsize company, and is today one of the fastest-growing professional services companies in the country.

Of the 15 to 18 people we consider the senior management in the company, most have been with the company for more than 10 years and have been part of this growth, and they have what I will say is a gut understanding of the problems of small businesses and with growth associated with moving out of that category.

We, too, are a diversified professional services company. These types of firms are part of a new and growing industry in the service sector of our economy. This industry has ideas and problem solutions as its product: The application of professional, expert, and specialized knowledge to assist clients in solving operational, technical, and management problems. The services that BDM provides is primarily that of our highly skilled employees augmented by computers, laboratory electronics and other special purpose equipment.

There are literally thousands of professional services companies in the private sector doing billions of dollars worth of work. Most are small, highly competitive, and often possess unique capabilities.

Professional services companies find their business operations dominated by small contracts. In 1983, as an example, BDM was awarded 610 contracts from all sources. Of these, 515 were for $250,000 or less, and the revenues from those 515 contracts accounted for almost 20 percent of our total 1983 corporate revenues. If you increase that number just slightly, 570 of those 610 contracts were for $2 million or less, and those 570 contracts accounted for 61.5 percent of our total corporate revenues in 1983.

Because of the high proportion of small contracts, BDM fulfills most contracts requirements through the use of its own professional and technical resources. BDM subcontracts when we need a special expertise, unique professional talent, or a capability that we don't have in-house.

We were a small business in every sense of the word for many years. We know and we understand the problems, the concerns, and the difficulties of small businesses. It has been over the years, and remains, our corporate policy to endorse and support the objectives of the Small Business Act and Public Law 95-507. The policy statement on utilization of small and small disadvantaged businesses is contained in our corporate manual on operating procedures and is reproduced in the formal testimony which was submitted to you.

One of the final statements in that policy says that the corporation encourages the continued use of those subcontractors whose work reflects a commitment to quality, timeliness, and effective cost controls, because those are the same attributes that we stress in our own salesmanship to our clients.

That this policy is being adhered to is shown by the April 5, 1984 letter that we received from DOD, DCAS, stating that BDM is currently in compliance with the subcontracting program requirements of the DAR.

We have 19 contracts currently active on which there are small business subcontracting requirements. Of those 19 active contracts, we have already fulfilled the goals on 6 prior to completion of the contract and, on the 13 others, we consider that we are on schedule and that we will meet or exceed the subcontracting requirements by the time that those contracts are completed.

We have a senior management officer, a vice president for contracts administration, who is responsible for the implementation of this subcontracting policy in the company. He is the corporate small business program administrator and the designated corporate small business liaison officer. We have also appointed regional small business liaison officers in our major offices throughout the country. We conduct a continuous campaign to utilize small and small disadvantaged concerns in our operations. Over the past 3 years, BDM's prime contract value increased from $86.5 million to $148.2 million. In this case, I am using the contract award value, although I share with Mr. Russell the concern that award value rather than revenues can be somewhat misleading. We did, however, provide the statistics on the basis you requested.

The subcontracts to small and small disadvantaged businesses increased in both numbers and value, as is indicated in the material that we submitted to you.

As a percentage of the dollar volume of total subcontracts, that portion having to do with small businesses has remained relatively constant in the 38- to 39-percent range, and that portion subcontracted to small disadvantaged firms has been in the 4- to 5-percent range.

We have looked at this and concluded that one of the problems that we have with that percentage number, which we would like to see increasing, is that it reflects: First, our early and successful commitment to the program prior to Public Law 95-507 and second, to the nature of our business operations. In other words, the base from which we are observing our performance was higher than it might have been because we were working this subcontracting problem before the requirement was put into law.

In addition to subcontracting, BDM seeks to help small and small disadvantaged firms in other ways. We participate in small business procurement conferences; we attend trade association meetings and seminars devoted to small business; we provide management and financial assistance; and I have personally been out talking to minority groups about BDM's history and the way we got to where we are and some of the problems that we encountered, I hope I gave them some helpful hints about how to avoid some of the problems that I had to learn about the hard way.

A key factor in the implementing subcontracting program is awareness among the corporate management, the program management, and the acquisition personnel of our policy and of my personal strong views about its importance. The senior management team knows how they have contributed to BDM's small business program, and they know that this is taken into consideration by me in evaluating their executive performance. The personnel concerned with the acquisition process are evaluated on their performance, which includes compliance with corporate procurement policy, including policies and procedures pertaining to the utilization of small and small disadvantaged businesses.

At all management meetings, we bring up the issues of small business and disadvantaged business subcontracting as well as EEOC requirements in order to make sure that the BDM management, from the bottom level up, understands that I consider these matters to be both a personal and a corporate obligation.

We have achieved the level of performance in the BDM Small Business Program through a training program designed to create an awareness at all levels of personnel of the importance of implementing that program. This training takes place in our management development seminars, marketing, and management symposia, and the enhanced procurement system training. These programs, which are in-house programs, are conducted several times during the year at a corporate headquarters or at one of our major field offices.

BDM has adopted successfully an integrated subcontracting system for the identification, solicitation, and utilization of small and small disadvantaged business firms since the enactment of Public Law 95-507. The notable components are: Designation of a senior management official as the corporate small business liaison officer; periodic publishing within the corporation of source lists for potential small and small disadvantaged businesses as potential subcontractors; the identification of small business liaison officers at each BDM location; annual corporate objectives addressing BDM's commitment to small and small disadvantaged business utilization; a formal reporting system to meet U.S. Government reporting requirements on a quarterly and semi-annual basis and to provide information for management analysis purposes; participation in small business procurement conferences; and utilization of

SBA's procurement automated source system for identification of candidate subcontractors.

We, like the previous witnesses, have the problem of identifying qualified small and disadvantaged small firms to which we can subcontract.

In closing, I would like to make some general observations about the program and the legislative framework. These comments are not designed to detract from the socioeconomic objectives, but to suggest ways to make the program work more effectively and more efficiently.

There is a need to provide a more positive drive to the program by gaining the wholehearted support of the midsize and large members of the business community. Disincentives which presently exist in the program need to be eliminated and replaced by incentives.

Subcontracting at times results in out-of-pocket expenses to the prime contractor which are not reimbursed. Examples are financial loans, assistance in setting up information and accounting systems and other activities which a small company doing business with the Government has not had the time to develop, and actual losses caused by the small firm's failure to perform or actually go bankrupt.

Incentive awards above the basic fees or profit should be available to prime contractors who make extraordinary efforts to utilize small and small disadvantaged businesses above any contractual requirements which may be established. It costs BDM money to subcontract in many cases.

When appropriate, a subcontracting requirement for the use of small and small disadvantaged businesses should be included as part of the request for proposal, and the proposal should set forth a specific plan outlining areas of work to be subcontracted, how small businesses would be used, and the dollar amounts. Then the source selection process should provide for the plan to be a significant weighted factor in the proposal evaluation. The dollar value and other pertinent aspects would then become a part of the contract.

The point I am trying to make here, Mr. Chairman, is that, at the moment, the program is structured so that we are presented with the requirement to put in a small business subcontracting plan, but the whole thing is done in a more or less punitive sense after the fact. The contracting officer says, "We are going to give you the contract, but you must have this kind of a subcontracting plan, and you can't increase the price." Suppose he said: "Because you put in such a fine subcontracting plan, we are going to give you extra award points and put you ahead of your competitors so that you have a better chance of winning the contract." It would be shifting from a negative approach to a positive approach.

Mr. Chairman, I would like to see us begin to dispel the environment of suspicion and doubt which does seem to exist today between the participants in this program. Many members of the business community want to work with the congressional committees and their staffs to develop policies and programs which will truly help small businesses to grow and prosper.

[Mr. Williams' prepared statement with attachments follows:]

PREPARED STATEMENT OF EARLE C. WILLIAMS, PRESIDENT, BDM INTERNATIONAL, INC.

I am pleased to have this opportunity to appear before your committee to describe how BDM International, Inc. has been implementing the provisions of Public Law 95-507 as they pertain to subcontracting to small and small disadvantaged businesses. First permit me to introduce myself and to tell you a little about BDM International in order to provide a setting for my description of BDM's subcontracting program and experiences.

I am Earle C. Williams, president and chief executive officer of BDM International, Inc. My education and training was as an electrical engineer, and I am a registered professional engineer. I joined BDM in 1962 as a senior engineer and in 1972 became its president and a member of the board of directors. In my twenty-two years with BDM, I have been engaged in R&D program management and corporate management. Since coming to BDM, the revenues have grown from $269,917 in 1962 to over $151 million in 1983, and from 17 employees to over 3,000. As a member of the technical staff and as a senior executive in BDM, I have been a part of this growth process which saw the company move from being a small business enterprise to a mid-sized company which is considered one of the country's fastest growing professional services firms.

BDM International, Inc. is a diversified growth-oriented professional and technical services firm whose operating subsidiaries provide advance technology and other contract support to public and private sector clients. The operating subsidiaries perform research and analysis; test and evaluation; hardware and software systems design, engineering, and integration; industrial and financial services; and other professional and technical services in such areas as defense, communications, space, energy, the environment, transportation, and public policy. These services consist primarily of the expertise of our employees, augmented as required by computers, specialized computer programs, and, on occasion, electronics laboratory equipment. More than 85% of the company's revenues and earnings were derived from services intended to strengthen the security of the United States and friendly and allied nations.

The professional and technical services industry of which BDM is a part represents a relatively new but growing and significant sector of this county's emerging services economy. It is our industry that has ideas as its product—the application of professional, expert, and specialized knowledge to assist Government and private sector clients in solving operational, technical and management problems. These services take many different forms—computer and computer programming applications, research and development, architectural and engineering services, laboratory analyses, system and equipment test and evaluation, special studies, and management consulting advice, to name only a few.

Professional services companies such as BDM typically have as their work force individuals with advanced educational qualifications and practical experience in complex problem solving; normally an interdisciplinary group will work together to solve a client's problem with an economy of time and effort and quality results. There are thousands of professional services companies in the private sector doing billions of dollars worth of work for public and private clients. These companies are predominantly small, highly competitive, and often possess unique capabilities.

No single firm has any significant share of the market for professional services. Those companies that are considered large and mid-size in the industry find that their business operations are heavily dominated by relatively small contracts. In the case of BDM in 1983, we were awarded a total of 610 contracts. Of that number, 515 contracts were for $250,000 or less and those contracts accounted for almost 20 percent of our revenues in 1983. Of the 610 contract awards, 570 were for $2 million or less, and these were valued at 61.5 percent of our revenues. Each of these contracts is in reality a small business operation with the corporate structure providing management, financial and administrative support as each manager may need to meet the requirements of his contract.

As a general rule, because of the high proportion of small contracts, BDM is able to fulfill most contracts through the use of its own professional and technical resources. BDM does subcontract when we need a special expertise, unique professional talent, or a capability we do not have in-house. On these occasions, the subcontractor is identified and made a part of the team responding to the RFP issued by the client, whether in the public or private sector. If the award is made to BDM, that subcontractor is, of course, a member of the team implementing the contract. It is the unusual situation where BDM hs won an award and then gone into the marketplace to subcontract a part of the contractual effort.

I have described these characteristics of the professional services industry, using BDM as an example, because they bear upon the subcontracting programs of professional services companies. We are a new industry; we are developing and growing in size and capability. We are part of the expanding services sector of the American economy, and we are quite different from the manufacturing sector and the hardware companies. Although the professional services companies who do business with the Defense Department, as BDM does, are frequently lumped together with the hardware companies under the rubric of defense contractor, they are different from the hardware manufacturing firms in the way they function and conduct their business. I would stress that this difference is not yet fully recognized and, as a result, laws and regulations which are drafted with manufacturing firms in mind often create unintended problems and difficulties for the professional services company. Unhappily, this difference is ignored in the Federal procurement system.

Mr. Chairman, I would like to address specifically BDM and its subcontracting program for small and small disadvantaged firms.

BDM as a business enterprise was for many years a small business in every sense. We know only too well and we fully understand the problems, concerns, and difficulties which confront a small business. Consequently, it has been and remains our corporate policy to endorse and support the objectives of the Small Business Act of 1958 and Public Law 95-507. While we do from time to time suggest changes in the law to the Congress through our trade and business associations for personal appearances at committee hearings, these suggestions are made in the spirit of making the law work more effectively and efficiently and are not designed to detract from or weaken the socioeconomic objectives of the law. It is true, however, that there may be more than one interpretation of what the objectives are.

BDM's commitment to assist in the development of small and small disadvantaged business is based on our belief that the Nation is best served by nurturing and utilizing such firms so that they can grow and prosper. We believe that we have a corporate responsibility to our community and to society to support the spirit and objective of the Small Business Act of 1978 and Public Law 95-507. That commitment is reflected in the company's operating procedures manual on "small, small and disadvantaged, and women-owned business." I personally drafted that particular section, and it is the policy and directive basis for BDM's programs and procedures in this area. If I may, Mr. Chairman, I would like to read that brief section of the manual:

"It is the policy of the BDM corporation that small, small and disadvantaged, and women-owned firms shall have the maximum practicable opportunity to participate in teaming agreements with BDM and in the performance of any subcontracts to the extent consistent with the efficient performance of contractual commitments to its clients. In accordance with this policy, BDM, identifies and actively pursues business relationships with small, small and disadvantaged, and woman-owned businesses with the appropriate professional staff resources to provide cost-effective support in the performance of contracts and the development of contract deliverables. To ensure effective performance on subcontracts and teaming agreements, BDM may provide to a subcontractor technical or business assistance to include management, accounting, or contracts administration guidance.

The corporation encourages the use of small, small and disadvantaged, and woman-owned businesses where appropriate. However, in those procurement actions where the total anticipated value of the contract will exceed $500,000, specific contract goals will be negotiated on a contract-by-contract basis with the Government. The corporation also encourages the continued use of those subcontractors whose work reflects a commitment to quality, timeliness, and cost control."

To carry out this policy, I have designated the company's vice president, contracts administration, as the corporate small business program administrator. He is also the designated corporate small business liaison officer. A subcontracting program to maximize the use of small and small disadvantaged business has been developed and incorporated into BDM's procurement manual. A description of this program is attached as appendix A.

In addition to our internal corporate activities, we have been working within our trade associations to develop program activities which would be helpful to the leadership of member small businesses. We have been discussing a seminar series where the CEO's and chief operating officers of small businesses would meet with the CEO's of the larger mid-sized companies to discuss specific management and operational problems. Many of the CEO's of the smaller companies are anxious to learn how we dealt with those problems as we went through the growth process. I believe this type of activity within the business community can contribute immensely to the growth process of small companies headed by energetic entrepreneurs with a desire to grow out of the small business category.

In response to your query about BDM's performance in subcontracting over the past three years, an appropriate chart and graphics showing these data are attached as appendix B.

As I have stated, BDM has been conducting a vigorous campaign to utilize small, and small disadvantaged businesses in its operations. As BDM's dollar volume of business has grown over the years, the dollar volume which has been subcontracted to small and small disadvantaged business has also grown. As a percent of our dollar volume of subcontracting, it has, however, remained relatively constant. This, I feel, reflects the fact that in prior years we made a determined effort to subcontract to small and small disadvantaged businesses, and the nature of our business operations which I earlier described.

We are constantly striving to improve our performance and to effect an improvement in the percentage of our subcontracting to small and small disadvantaged businesses. I am fully aware that in such companies, you find innovativeness, initiative, unique capabilities, and dynamic energies. it is clearly sound business for BDM to join with such companies by teaming, subcontracting, or otherwise in a joint effort to win more awards. BDM's growth over the years and its consistent teaming and subcontracting with small and small disadvantaged firms demonstrates the benefits to both parties and the wisdom of this policy of making maximum use of small and small disadvantaged business.

BDM has been able to successfully implement this policy because of the awareness among its management, program, and acquisition personnel of the soundness of the policy, in part, this awareness is a result of the fact that they understand that successful implementation is a corporate objective that they are obligated to support. I have about 140 executives whom I consider to be BDM's management team. These men and women have heard me on this policy many times over the years. It has become a part of the corporate culture as well as BDM's operating procedures manual. These executives know that how they have contributed to BDM's small business program will be taken into consideration by me in my evaluation of their executive performance.

With respect to other personnel, all BDM personnel are acquisition personnel. This fact of professional services industry life is driven by the highly sophisticated technologies which a corporation like BDM generally uses in pursuit of its contractual objectives. No traditional acquisition person (purchasing agent/subcontracting administrator) can be expected to exercise a command of the technologies involved in a given program which would allow unsupplemented decision-making as to qualifications and abilities of potential subcontractors. These technologies demand the participation of qualified technical staff in all phases of the acquisition cycle to assist subcontract administrators and purchasing agents in structuring a sound contractual document. All these employees are made aware, through management supervision and participation in training courses, of the importance of assuring BDM participation in various socioeconomic programs such as that embodied in Public Law 95-507. Accordingly, BDM employees are expected to identify, evaluate and afford the opportunity for competition or sole source participation if appropriate, to small and small disadvantaged businesses as a part of their everyday responsibilities.

Those BDM employees who are filling the more traditional acquisition roles, such as purchasing agents, subcontract administrators and small business program liaison officers, are all supervised in a functional sense by BDM's director of subcontracts and procurement, who reports directly to the corporate small business liaison officer. Through this functional linkage, all of the traditional acquisition personnel are subject to a performance evaluation which requires compliance with procurement policy, including policies and procedures governing the utilization of small and small disadvantaged businesses.

BDM is able to develop in its personnel a sensitivity to and understanding of the BDM small business program through its training programs.

We utilize several methods to train and familiarize all personnel with the importance of implementing and executing the small business subcontracting program. The training programs are designed to create awareness of the procurement function and policies at all levels of personnel and to motivate procurement personnel in the effective execution of the subcontracting program.

At present, BDM is using several formal programs to accomplish these objectives: management development seminars (MDS); marketing and management symposium (M^2S); enhanced procurement system training (EPST).

In addition to these formal training methods, all personnel are encouraged to attend applicable conferences and seminars and are fully reimbursed by BDM for these personal career development initiatives.

The MDS is a continuing formal training program that is constantly being revised to incorporate the latest techniques for developing the total manager. During this seminar, a major effort is devoted to project/program management, including the importance of selecting small and small disadvantaged businesses as teaming partners and subcontractors.

The M^2S is an annual event that is attended by all levels of management. While the primary purpose of this symposium is to expand the diversify the corporation's marketing activities, the utilization of small and small disadvantaged businesses as potential teaming partners and/or subcontractors to provide greater marketing opportunities is stressed.

In our continuing effort to ensure that BDM's total subcontracting program reflects the latest government procurement regulations and public laws, a major revision of the BDM procurement manual was recently completed. As a part of this revision, a separate department was established with the responsibility to continuously monitor the subcontracting program for implementation and execution, and to update the procurement manual periodically to insure compliance with government procurement regulations. To familiarize all personnel with the revised policies and procedures, the enhanced procurement system training program was established. This new training program was designed to provide detailed instructions to procurement personnel with particular emphasis on their roles and responsibilities during the acquisition process. Presently, the formal training program is being conducted at the corporate level as well as 34 regional office locations throughout the operating subsidiaries of the corporation. An integral portion of this formal training program is the explanation of corporate philosophy, policies, and procedures relating to the small business subcontracting program and identifying individual responsibilities associated with the procurement function, including the utilization of small and small disadvantaged business concerns whenever practicable and to the fullest extent possible. Procurement personnel are issued warrants and are certified as authorized acquisition agents for the corporation upon completion of this training.

In addition to this formal training program, the subcontracts and procurement department, under the guidance of the corporate small business program administrator, provides informal and spot training in implementation and execution of the small business subcontracting program and continuously monitors compliance with corporate established procurement policies and procedures relating to the program.

I believe, Mr. Chairman, that BDM has successfully adopted and implemented a fully integrated and sophisticated subcontracting system for the identification, solicitation, and utilization of small and small disadvantaged business firms since the passage of Public Law 95-507. Among the more notable components of this system are:

The designation of a senior management official as the corporate small business program administrator and as the corporate small business liaison officer.

The periodic (approximately every six weeks) publishing of the qualifications and other descriptive information pertaining to all small and small disadvantaged businesses which have contacted DBM in the interval since the last periodic publishing. This list of qualifications is distributed to all vice presidents corporate-wide and is identified as a primary source list for potential subcontractors.

The establishment of formal reference files in the contracts administration department which embody the promotional literature sent to BDM by various firms. These files are cross-referenced to the companies listed as potential sources and are available to any staff member searching for subcontractors.

The identification by name of small business liaison officers in each BDM location. These individuals form a network which works directly with the corporate small business liaison officer in maintaining contact with the local small business community. Small business liaison officers also act as the focal point around which each separate BDM office's small business activity revolves. They characteristically establish and maintain libraries of promotional materials received from small businesses, prepare local utilization statistics, and advise local technical staff concerning the availability of potential small and small disadvantaged business subcontractors.

The formal integration of Public Law 95-507 requirements into all BDM procurement policy and procedures.

The establishment of annual corporate objectives which address BDM's commitment to small and small disadvantaged business utilization.

The establishment of a formal reporting system to the U.S. Government on a quarterly and semi-annual basis as required by law. This includes a tracking system which encompasses all procurement arms of BDM and provides an accurate measure of accomplishments to management, as well as required data for the purpose of U.S. Government required reports.

Participation in various Federal procurement conferences as a member of the cadre available to advise attendees concerning subcontracting opportunities and the requirements for doing business with the Federal Government. I might add that I personally have made presentations at a number of these conferences.

Utilization of the procurement automated source system (PASS) for identification of candidate subcontractors, vendors and suppliers, as well as the establishment of a close working relationship with the various U.S. Government small and small disadvantaged business representatives.

I believe the foregoing represents a conscientious effort to identify and support candidate firms which can supplement BDM capabilities with high quality assistance in the subcontractor role.

In closing, Mr. Chairman, I would like to make a general observation about the Government's small and small disadvantaged business program. In endeavoring to achieve the objectives of the program, many programs and techniques have been legislated or administratively established to help the small business grow. These include providing direct financial assistance, consultants, contract set asides, and others. The success of these programs and techniques has been quite varied. In these endeavors, one of the greatest assets available has been overlooked—the American business community with its businessman entrepreneur and his natural instinct and desire to make money. I believe that by making mandatory a specific incentive system and incorporating it into programs to develop and help small and small disadvantaged firms to grow and prosper, the American business community will be strongly encouraged to respond in a positive and meaningful manner. These incentives must be additional to the basic fee or profit which is negotiated. This concept is not new and the structure for its implementation exists in the present procurement system. In its present form, the incentive provision is permissive on the part of Government acquisition personnel and is not used to motivate firms to subcontract.

For those procurements in which subcontracting to small and small disadvantaged businesses may be appropriate, the request for proposal (PFP) should require that the proposal contain a specific plan on how these businesses would participate, the areas of work they would undertake, and the dollar amount of the contractual effort to be subcontracted. The plan would be evaluated as a part of the total proposal evaluation process and would be a factor in the award. Specific commitments as to the effort and the dollar value to be subcontracted would become a part of the contract. Subcontracting to small and small disadvantaged firms, in essence, would become another contractual deliverable. There would be provision for monetary penalties if the deliverable was not met; if met and exceeded, these would be an appropriate system of monetary awards over and above the negotiated fee or profit.

Present profit policy also includes tools which could be used to stimulate the utilization of small business. The "special factors" provisions of the profit policy concerning small and small disadvantaged business participation are rarely used by acquisition management personnel in structuring profit objectives. Often, contractors find that the profit weighted guidelines result in lower monetary reward as a result of subcontracting. By subcontracting to small and small disadvantaged business, a contractor assumes the additional risk of coordinating the efforts of these companies. Clearly, a more consistent and balanced approach is needed that integrates the various available efforts to aid small business to make them mutually supporting and attractive to larger firms that do subcontract.

Similar incentive arrangements could be made for other areas where the business community could be enlisted to aid in the growth process for small and small disadvantaged businesses.

Mr. Chairman, I could list several other concepts which I believe would contribute constructively toward meeting the objectives of the Small Business Act and Public Law 95-507. First though, I would like to see us begin to dispel the environment of suspicion and doubt which seems to exist between the various participants who are or who become involved in the small business program. Many of us in the business community want to work with the congressional committees to develop policies and programs which will enable small business to grow and prosper. It is sound business; good for the American people and in the interests of our country. Mr Chairman, I, personally, and members of BDM's management team are prepared to meet with you, members of the committee, or committee staff to duscuss specific ways that the effort to assist small businesses to develop and grow can be improved and enhanced in the positive business environment.

APPENDIX A

A DESCRIPTION OF THE BDM INTERNATIONAL, INC. SUBCONTRACTING PROGRAM

The BDM International, Inc. Procurement Manual encompasses all Corporate procurement policies and detailed procedures for the implementation and execution of the subcontracting program, including those relating directly to the utilization of small and small disadvantaged business concerns.

- POLICY GUIDELINES
  - The BDM operating subsidiaries are committed to the active utilization of qualified small and small disadvantaged business concerns as suppliers, teaming partners, and potential subcontractors to the greatest extent possible. In fulfilling these commitments, the following guidelines apply to the acquisition process:
    - Small, small disadvantaged, and women-owned businesses will be used to the maximum extent possible as team members and subcontractors to enhance and supplement Corporate capabilities in order to improve competitiveness and credibility in the market place.
    - Small, small disadvantaged and women-owned businesses will be used to the maximum extent possible and whenever practical for the supply of materials, supplies, equipment, systems, and services.

- Develop new subcontracting sources with due consideration given to and affording the maximum practicable opportunity for small business, small disadvantaged business, women-owned business, and labor surplus areas to participate in the competitive procurement process.

- SUBCONTRACTING SOURCE DEVELOPMENT

  - BDM actively seeks qualified small and small business concerns in order that mutually advantageous relationships can be entered into through teaming arrangements and/or as potential subcontractors. In an effort to identify firms that possess desired capabilities in potential business areas and have the ability to participate in potential subcontracting activities, Corporate personnel participate in Government sponsored conferences and attend other appropriate functions. As a result of these activities, the following source lists are prepared and distributed with other source lists throughout the Corproation:

    - Small, Small Disadvantaged, and Women-Owned Business Capabilities Listing - An internally compiled and maintained listing of small business, small disadvantaged business, and women-owned business sources with whom some form of contact has been made and descriptive information is being kept on file.

- Previous Suppliers - A record containing names of suppliers for items previously purchased. This record will serve as a ready reference for like or similar items for future purchase.
- Procurement Automated Source System (PASS) - An automated company profile system administered by the Small Business Administration which contains over 100,000 small businesses categorized by: manufacturing, research and development, construction, or service firms.

- COMPETITIVE PROCUREMENT

  - BDM fully supports the competitive procurement process. Every effort is to ensure that all solicitation packages are sufficiently understandable to attract and encourage maximum participation of small, small disadvantaged, and women-owned businesses. In regard to competition, the primary objective of the procurement policy is the satisfaction of the stated requirement. In satisfying this requirement, competition is a means to:
    - Secure and assure product quality.
    - Secure and assure cost or price reasonableness.
    - Promote and attain stated socio-economic objectives through the procurement process.
  - In cases where all vendor responses are equal, awards are made in the following sequence:
    - Small Disadvantaged Businesses
    - Small Businesses
    - Women-Owned Businesses
    - Large Businesses.

It is the responsibility of all personnel connected with the procurement process to evaluate each requirement and to utilize competition to the maximum practicable extent. The necessity of maintaining a proper purchasing base, particularly to include small, small disadvantaged, or women-owned businesses, may, in certain circumstances, justify a degree of restrictive procurement. In cases where circumstances prevent the use of competition, the reasons for not utilizing competition will be justified and documented. Documentation for sole source procurements are subject to management review.

- THE CORPORATE SMALL BUSINESS LIAISON OFFICER
  - To ensure the subcontracting program is fully implemented throughout the Corporation and that small and small disadvantaged business concerns are afforded the maximum opportunity to participate in the procurement process, specific individuals have been designated to implement the Small Business Subcontracting Program.
  - The Small Business Subcontracting Program is conducted under the leadership of the Vice President, Contracts Administration, who is the Corporate Small Business Program Administrator and is the designated Corporate Small Business Liaison Officer (SBLO). The Director, Subcontracts and Procurement, is designated as his assistant. Additionally, a SBLO is identified at each regional location in accordance with BDM Operating Procedure No. 2.0033, entitled "Small, Small and Disadvantaged, and Women-Owned Businesses."

- The duties of the Corporate SBLO are to:
  - Ensure adequate and timely consideration for the utilization of small and disadvantaged business concerns, and labor surplus area concerns and review procurement planning actions of $10,000 or more to assure maximum solicitation from small and small disadvantaged business concerns.
  - Assure that small and small disadvantaged business concerns will have an equal opportunity to compete for subcontracts, particularly by arranging solicitations and delivery schedules so as to facilitate their participation. In this context, the utilization of these concerns will be consistent with the Government's policies and Corporate objectives. Procurement personnel are to seek sources consistent with the demands for the best mix of cost, level of clearances required, performance, and schedule.
  - Utilize various methods to identify and document qualified small and small disadvantaged business concerns to assure their utilization. Examples of these methods are:
    - Maintain listings of small and small disadvantaged business concerns and query listed businesses to determine their specialty and capabilities.
    - Support small and small disadvantaged business concerns by providing guidance on Government contracting and subcontracting procedures and opportunities.

  - Participate in conferences sponsored by the SBA and other organizations aimed at facilitating awareness of small business concerns and the supplies and services they offer and document attendance in these activities.
- Establish, supervise, and conduct employee training and motivation programs related to small and small disadvantaged business concerns and maintain records documenting these activities. An integral part of this training is to ensure complete awareness of the role that the Small Business Subcontracting Program plays in the procurement process.
- Provide support to small and small disadvantaged business concerns who approach any operating subsidiary of BDM with guidance on contracting opportunities as a potential subcontractor or teaming partner.
- Assure that procurement personnel actively pursue the policy of procuring, to the maximum extent possible, materials (particularly those of an indirect charge) from small business small disadvantaged business concerns.
- Assure that BDM includes the "Utilization of Small Business and Small Business Owned and Controlled by Socially and Economically Disadvantaged Individuals" clause in subcontracts which offer further subcontracting opportunities. (Note: Procurement personnel require all such large

business subcontractors who receive subcontracts in excess of $500,000 to adopt a plan in consonance with DAR 7-104.14(b) and notify the Contracting Officer of the names of such subcontractors. In addition, review and approve these subcontracting plans and evaluate vendor compliance with plans as required.)

- Assure that BDM submits such periodic reports and cooperates in any studies or surveys as may be required by the contracting agency or the Small Business Administration in order to determine the extent of compliance by BDM with the subcontracting plan.
- Assure that procurement personnel have updated information relative to expertise of small and disadvantaged concerns.
- Promulgate, maintain, and audit compliance with procedures designed to ensure local SBLO adherence to applicable regulations in support of Corporate objectives.
- Annually, establish Corporate-wide goals for subcontracting to small and small disadvantaged business concerns and appropriately distribute these goals. Additionally, the Corporate SBLO assures that the goals established under subcontracting plans are achieved and the subcontracting report for individual contracts (Standard Form 294) is completed and forwarded to the applicable agencies semi-annually. In the event of prime contract modifications, the subcontracting plan is updated as required. Local appointed SBLO's are required to complete the Standard Form 294 for

contracts performed at their respective offices. In such cases, a copy of the completed form is retained for the local Small Business file and a copy forwarded to the corporate SBLO for integration and forward to the Office of Deputy Secretary of Defense, as noted below. This report is submitted quarterly by the Corporate Small Business Liaison Officer (SBLO) to the Office of the Deputy Secretary of Defense, ATTN: Director of Small Business and Disadvantaged Business Utilization, The Pentagon, Washington, D.C. 20301, with copies to additional agencies as required.

- PROCUREMENT PROCEDURES
  - Every effort is made to encourage participation by small business concerns in the procurement process for supplies and services required by BDM. In regard to the use of small, and small disadvantaged business concerns, and labor surplus area businesses, all (Corporate and regional) procurement personnel:
    - Actively pursue and maintain information on small and small disadvantaged business concerns (to include capabilities, size of firm, and location). This information is immediately forwarded to the Corporate Small Business Program Administrator for inclusion in the Small and Small Disadvantaged Capabilities listing.

- Maintain the expanded Small and Small Disadvantaged Capabilities Listing which is updated monthly and disseminated by the Corporate Small Business Program Administrator.
- Consistent with work to be performed, determine work areas which can be subcontracted to these firms by reviewing source lists as identified and described in Chapter V, Section B.1., Paragraph 2, of the Procurement Manual.
- Identify and solicit small or small disadvantaged business sources for items or services which were previously procured from large businesses as a "single source" where competition is currently known to exist.
- Whenever possible or practical, solicit at least one (1) small or small disadvantaged business source for each procurement valued at $10,000 or more to provide maximum opportunity to participate in the competitive procurement process.
- All suppliers utilized are identified as large business, small business, small disadvantaged business, women-owned business, or labor surplus area businesses.
    - These data are obtained through a standard questionnaire which is sent to all potential suppliers. An example of the Business Classification Questionnaire is attached.
    - After the questionnaire is completed, appropriate data is recorded in the Procurement Agreement

Log (Form 408) at each local procurement activity and copies are forwarded monthly to the Corporate Small Business Program Administrator for analysis.

  - Each potential supplier is also be required to provide certification of business classification prior to entering into a procurement agreement. The completed questionnaire and certification is maintained in the permanent procurement file at each location.
  - Vendor/supplier performance data are submitted to the Corporate SBLO for inclusion in vendor rating system.
  - The Small Business Checklist is completed for all procurements in excess of $10,000.

- A summary of these suppliers and the total amount and number of procurement awards is provided to management for review and evaluation on a quarterly basis by the Corporate Small Business Liaison Officer.

- PROGRAM REPORTING AND ANALYSIS
  - In support of all procurement personnel and in conjunction with local and Corporate Small Business Liaison Officers (SBLO), the Corporate Small Business Program Administrator:

  - Collects procurement information related to small and small disadvantaged businesses from all Corporate and regional personnel on a regular basis for analysis.
  - Reviews all data received from the locally appointed SBLOs and supporting procurement activity personnel to ensure consistency and completeness related to these procedures.
  - Utilizes the Procurement Agreement Log (Form 408) to extract award data and information related to type of business concern necessary to compile small business analysis.
  - Compiles information from the small business summaries to be used for the completion of the Small Business Subcontract Report of Participating Large Company on Subcontract Commitments to Small Business Concerns (Standard Form 295).
  - Disseminates analysis information together with prior quarter comparative statistics to appropriate program managers and procurement personnel to promote improvement in relationships with small and small disadvantaged business suppliers.
  - Appropriately distributes all new information related to contacts with or attendance at small business/small disadvantaged business associations, SBA business development organizations, procurement conferences, or trade fairs.
- The appropriate statement(s) and representations are included in all solicitations in support of Government contracts.

TO: POTENTIAL VENDORS/SUPPLIERS OF BDM INTERNATIONAL, INC. AND ITS SUBSIDIARIES

It is the policy of BDM International, Inc. that small business concerns and small businesses owned and controlled by socially and economically disadvantaged individuals have the maximum practicable opportunity to participate in the performance of contracts awarded by US Government Federal agencies. Additionally, as a major prime contractor, the operating subsidiaries of BDM International, Inc. are required to report periodically to the Government, statistics reflecting the quantity of procurements made from small and disadvantaged business concerns. In order to comply with this policy, it is requested that the below information be provided to us by your company.

Vendor's/Supplier's Name	Telephone
Street Address City State Zip	No. of Employees
☐ A Division Of ☐ A Subsidiary Of ☐ An Affiliate Of ☐ Independently Owned and Operated	Name of Parent Company and Address:
☐ Manufacture ☐ Consultant ☐ Distributor ☐ Retailer ☐ Other____________________	
☐ Small Business ☐ Large Business ☐ Non-Profit Business ☐ Foreign Business (Non-US) ☐ Disadvantaged Business ☐ Woman-Owned Business ☐ Labor Surplus Area Business	Identify Major Suppliers/Services:

The above block requesting the number of employees should include the total of all employees located in all divisions, affiliates, subsidiaries, and the parent company.

Eligibility as a small business is based upon the regulations issued by the Small Business Administration, per Rev. 13, Part 121, of the SBA Rules and Regulations. (If in doubt, consult the Small Business Administration Office in your area.)

Eligibility as a small disadvantaged business is first based on eligibility as a small business, as noted above. Second, disadvantaged status consists of at least 51 percent ownership of a firm by a disadvantaged person(s) and daily management and control of the firm by such disadvantaged person(s). Disadvantaged are minority groups, specifically Black Americans, Hispanic Americans, Native Americans (Aleuts, Eskimos, American Indians, and Hawaiians), Asian-Pacific Americans, and firms which have been admitted to the SBA's 8(a) Program.

Signature______________________________ Title______________________________

Typed______________________________ Date______________________________

- -

We would appreciate your cooperation in completing and returning this questionnaire at your earliest convenience. Please fold, staple, and return this form to the operating subsidiary of BDM International, Inc. at the address shown on the reverse side.

SMALL BUSINESS AND SMALL DISADVANTAGED BUSINESS CONCERNS

Small Business

(Applicable to Procurement Agreements that Exceed $10,000)

The offeror represents that he/she ( ) is, ( ) is not, a small business concern. Generally, a small business concern for the purpose of Government procurement is a concern, including its affiliates, which is independently owned and operated, is not dominant in the field of operation in which it is submitting offers on Government contracts, and can further qualify under the criteria set forth in Code of Federal Regulations, Title 13, Part 121, as amended, which contains the detailed definition and related procedures. If offeror is a small business concern (1) and is not the manufacturer of the supplies offered, it also represents that all supplies to be furnished hereunder ( ) will, ( ) will not, be manufactured or produced by a small business concern (2) it also represents that it ( ) has, ( ) has not, previously been denied a Small Business Certificate by the Small Business Administration.

Small Disadvantaged Business Concern (AUG 1980) DAR 7-2003.74

The offeror represents that he/she ( ) is, ( ) is not, a small business concern owned and controlled by socially and economically disadvantaged individuals. The term "small business concern" means a small business as defined pursuant to Section 3 of the Small Business Act and relevent regulations promulgated pursuant thereto. The term "small business concern owned and controlled by socially and economically disadvantaged individuals" means a small business concern:

- That is at least 51 per centum owned by one or more socially and economically disadvantaged individuals; or, in the case of any publicly owned business, at least 51 per centum of the stock of which is owned by one or more socially or economically disadvantaged individuals; and
- Whose management and daily business operations are controlled by one or more such individuals.

The offeror shall presume that socially and economically disadvantaged individuals include Black Americans, Hispanic Americans, Native Americans (such as American Indians, Eskimos, Aleuts, and Native Hawaiians), and other minorities or any other individuals found to be disadvantaged by the Small Business Administration pursuant to Section 8(a) of the Small Business Act.

Women-Owned Business (JUL 1981) DAR 7-2003.80

The offeror represents that the firm submitting this offer ( ) is, ( ) is not, a woman-owned business. A woman-owned business is a business which is, at least, 51 percent owned, controlled and operated by a woman or women. Controlled is defined as exercising the power to make policy decisions. Operated is defined as actively involved in the day-to-day management. For the purposes of this definition, businesses which are publicly owned, joint stock associations, and business trusts are exempted. Exempted businesses may voluntarily represent that they are, or are not, woman-owned if this information is available.

Percent Foreign Content (December 1978) (DEC 1978) DAR 7-2003.81

Approximately __________ percent of the proposed contract price represents foreign content or effort.

Place of Manufacture/Performance

____
City   County   State

Contractor's Plant

Contractor's Plant ( ) is, ( ) is not, in a Labor Surplus Area.

By signature hereto, the Offeror certifies that all of the representations and certifications contained in his proposal are complete and accurate as required by this RFP and is aware of the penalty prescribed in 18 U.S.C. 1001 for making false statements in proposals.

VENDOR ______________________________
NAME ______________________________
TITLE ______________________________
DATE ______________________________

PROCUREMENT AGREEMENT LOG

Page________

1. Procurement Agreement	2. P.R./Pgts Document Number	3. Date Issued	4. Date Due	5. Description or Part/Model No.	6.	7. SS	8. Vendor or Supplier	9. S-L SD W O	10. Total Cost	11. Date Comp	12. Subledger/ Cost Center
					☐						
					☐						
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Form No. [illegible] 2 84

INSTRUCTIONS FOR COMPLETION OF THE PROCUREMENT AGREEMENT LOG

1. PROCUREMENT AGREEMENT NUMBER - Enter Procurement Agreement Number. These numbers must be consecutive. Example: XYZ00024, XYZ00025, XYZ00026, etc.

2. P.R./RQTS. DOCUMENT NUMBER - Enter Requisition Number from the P.R./Rqts. Document. Example: 3228-01.

3. DATE ISSUED - Enter date the Procurement Agreement was committed and issued.

4. DATE DUE - Enter date the Vendor/Supplier promised delivery. NOTE - This date should not be later than the required delivery date listed on the P.R./Rqts. Document.

5. DESCRIPTION OR MODEL/PART NUMBER - A general description of the supplies or services as identified on the Procurement Agreement.

6. UNIDENTIFIED BLOCK - The number of line items/deliverables listed on the Procurement Agreement. Example: 3.

7. SOLE SOURCE - Check this block if the Procurement Agreement is a sole/single source acquisition.

8. VENDOR OR SUPPLIER - Identify the Vendor/Supplier being awarded the procurement (include zip code).

9. (S) (L) (SD) (WO) - Identify the classification of the Vendor/Supplier:

   S - Small Business
   L - Large Business
   SD - Small Disadvantaged Business
   WO - Woman-Owned Business

10. TOTAL COST - Enter total dollar amount of the Procurement Agreement.

11. DATE COMPLETED - Enter date all requirements stated on the Procurement Agreement was completed. This date should be extracted from the MIRR, BDM Form 413.

12. SUBLEDGER/COST CENTER - Enter the cost center listed on the P.R./Rqts. Document, including subledger. Example: 50228-60CCA21.

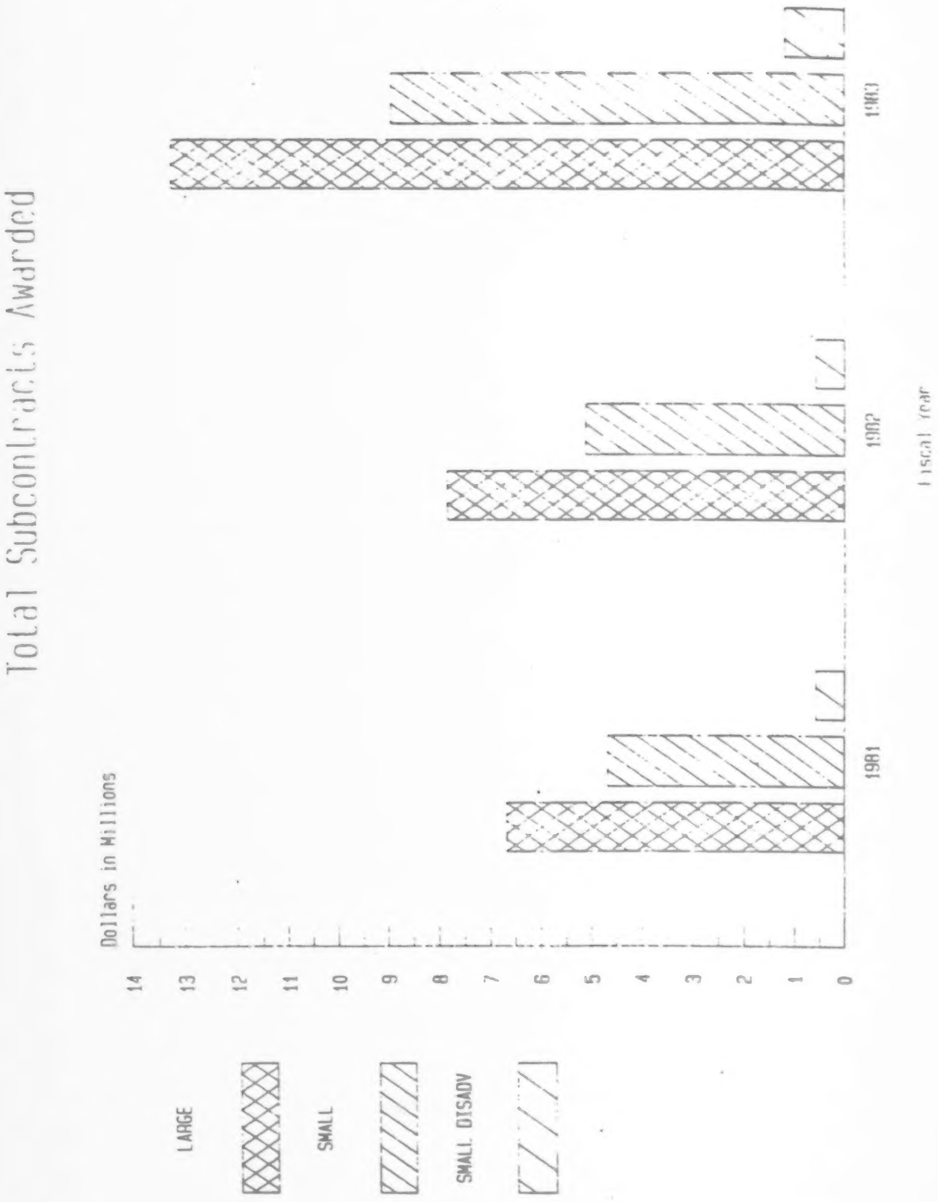
APPENDIX B-1

($ IN MILLIONS)

	1981	1982	1983
1 - Government Prime Contracts	$86.5	$90.6	$148.2
2 - Total Subcontract Value	$11.9	$13.5	$ 23.3
● Large Business	6.7	7.8	13.2
● Small Business	4.7	5.1	8.9
● Small, Disadvantaged Business	0.5	0.6	1.2
3 - Number of Subcontract Awards	7595	13423	17301
● Large Business	2900*	6256*	7852*
● Small Business	4459	6526	8488
● Small, Disadvantaged Business	236	641	961
4 - Percent of Total Subcontract Value	100%	100%	100%
● Large Business	56%	58%	57%
● Small Business	39%	38%	38%
● Small, Disadvantaged Business	5%	4%	5%

*BDM's data base does not track the number of awards to large businesses by purchase order and, therefore, this represents an estimate based on manual review of our files.

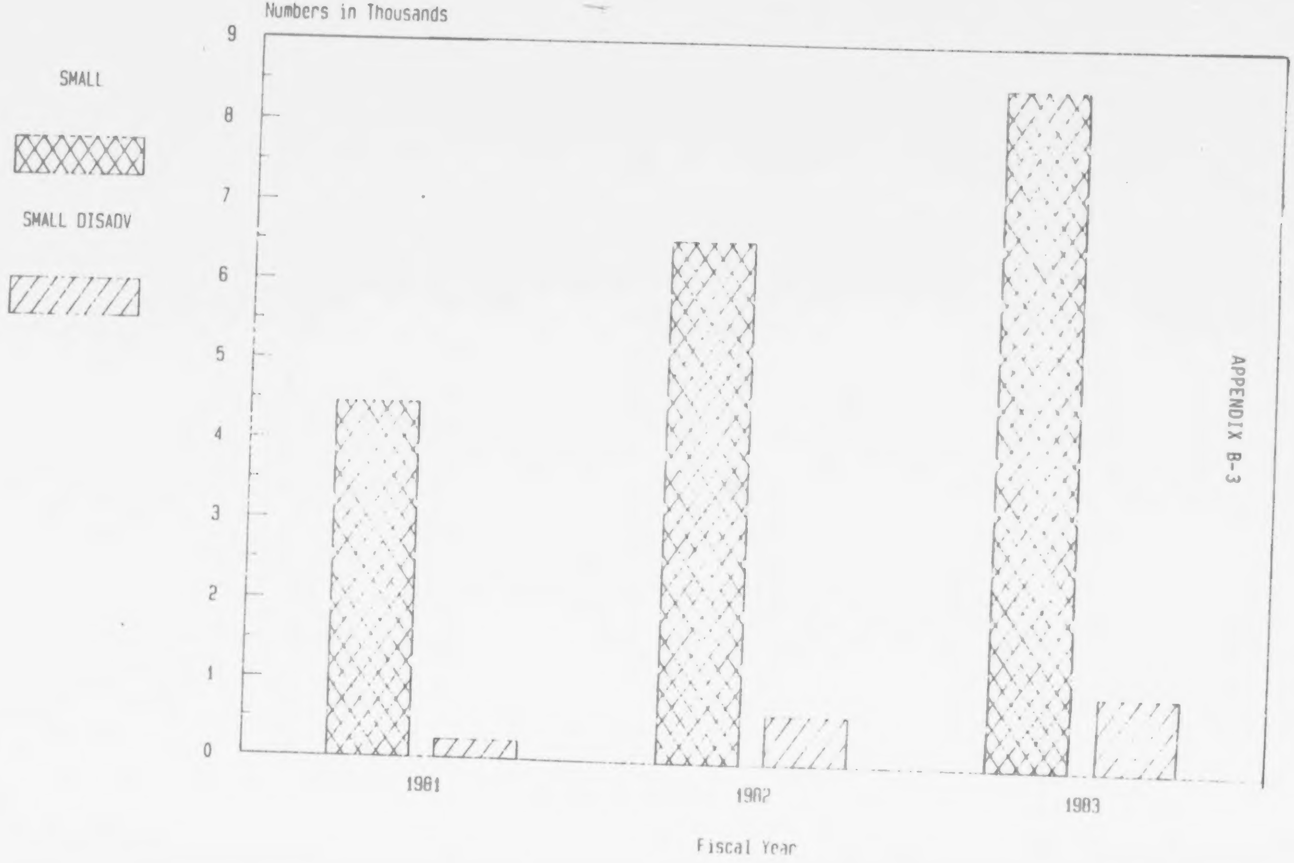
APPENDIX B-2



Total Subcontracts Awarded

APPENDIX B-3

Total Subcontracts Awarded



APPENDIX B-1

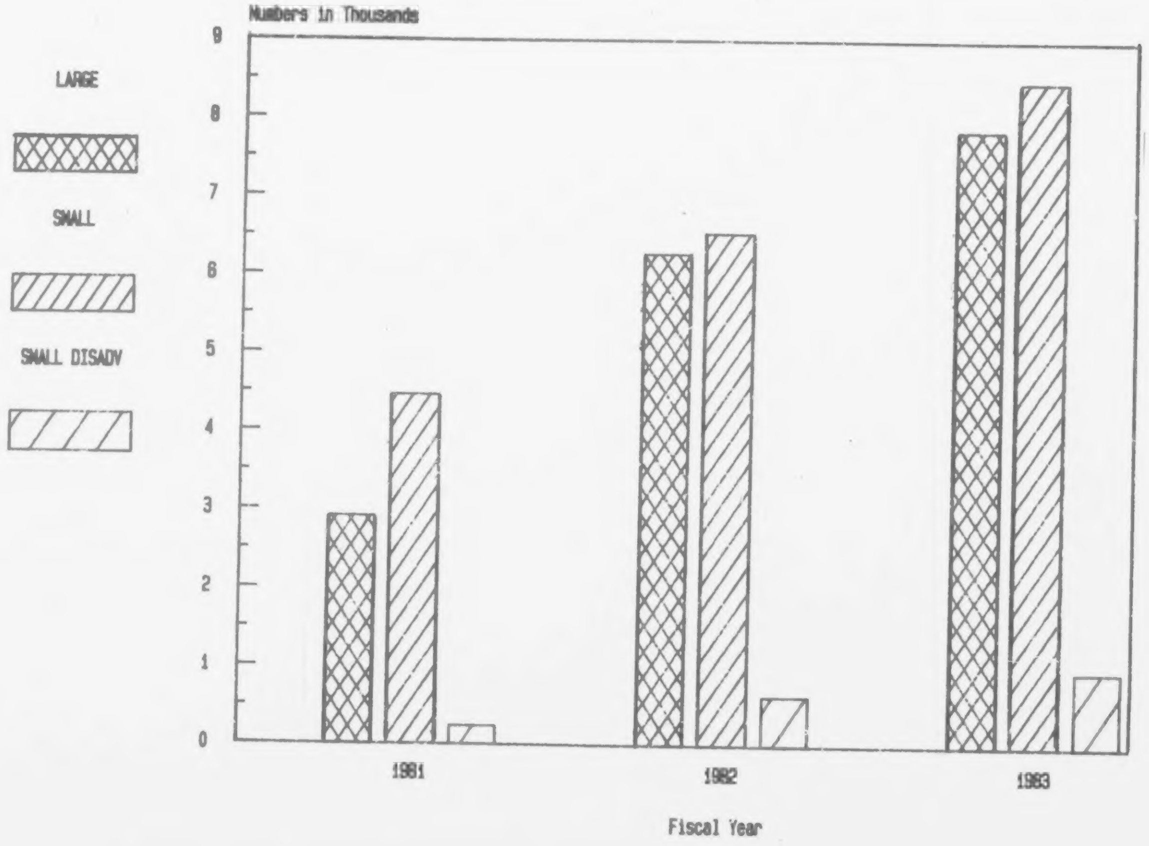
AWARDS

($ IN MILLIONS)

	1981	1982	1983
1 - Contract Awards Directly with U.S. Gov't	$86.5	$90.6	$148.2
2 - Total Subcontract Value	$11.9	$13.5	$ 23.3
• Large Business	6.7	7.8	13.2
• Small Business	4.7	5.1	8.9
• Small, Disadvantaged Business	0.5	0.6	1.2
3 - Number of Subcontract Awards	7595	13423	17301
• Large Business	2900*	6256*	7852*
• Small Business	4459	6526	8488
• Small, Disadvantaged Business	236	641	961
4 - Percent of Total Subcontract Value	100%	100%	100%
• Large Business	56%	58%	57%
• Small Business	39%	38%	38%
• Small, Disadvantaged Business	5%	4%	5%

*BDM's data base does not track the number of awards to large businesses by purchase order and, therefore, this represents an estimate based on manual review of our files.

Total Subcontracts Awarded



Mr. MITCHELL. Thank you very much. I thank all of the witnesses and the people who accompanied them.

Let me start out by saying that I can be somewhat sympathetic with regard to the degrees of complexities that you confront in attempting to utilize small and disadvantaged businesses. I say that because, over the last 10 years, it has become very popular and everybody has gotten into the act, and you have different levels of goals, and so forth.

Under each of the Presidents of whom I served, there was an administrative director saying these are the goals for all the agencies. That is one level. Within the agencies themselves, they set other goals, in-house goals. You have other goals being set by SBA.

My bottom-line position is that we could do away with all of that if there were just in compliance with Public Law 95-507. It is the most simple law in the world. Pages 13 and 14 of the act spell out what the law does. It is very simple. Constructions contracts in excess of $1 million must have a subcontracting plan before the agency signs off. Other than construction contracts in excess of $1½ million must have a subcontracting plan in the contract before the agency signs off on the contract.

If we could just get compliance with that, we wouldn't need all of these other things, we wouldn't need all of these other directives. But as you have indicated in your testimony, you have all kinds of variations within the agencies, some just blithely excusing noncompliance of the law and some aggressively pursuing it.

So I have to tell you that I can be somewhat sympathetic. I will also tell you that if ever we achieve full compliance with Public Law 95-507, I would be the first person advocating for the elimination of all other kinds of goals. This was the intent of the law, to simply, make it easier for the private sector to help small and disadvantaged businesses.

I have a couple of questions. First of all, I am concerned with your corporation. I understand the difficulties associated with the kind of business that you are in. Let me just run down the list of your contracts. It is clear to me that somebody is failing.

There is an Air Force contract—and I won't give you the number—for the development of cartographic systems and edit subsystems that is in the amount of $4 million plus. There is an Air Force contract to provide ADP professional services, including system analysis, that is $5 million. I can go down all of these, and there are five—a Navy contract to provide ADP professional services having planned subcontracting for $5 million.

Under each of those, there is zero for small and disadvantaged businesses. The problem that occurs to me is how do these contracts get signed off by the agencies—and this is mostly military stuff—how do they get signed off on without any utilization of disadvantaged businesses? Could you respond to that?

Mr. MONROE. First, let me state, Mr. Chairman, that the response might not be as good as if the group manager who happens to have cognizance over those contracts were here. It turns out that none of the five are in my group, I have to say.

I have asked Mr. Concklin to look into what details we have on that, and he will respond to that question.

Mr. MITCHELL. All right. I will give you the contract numbers.

Have you already looked into this?

Mr. CONCKLIN. I think I can respond, at least in a generic sense, which will be responsive to you.

You recall that Mr. Monroe indicated that our small disadvantaged share in the last 2 years was 7 and 8 percent. That reflects, obviously, an average of what we have done across the board. Within that average, if you will, of all those contracts, there are indeed some that had no small disadvantaged participation and there are indeed some that had substantial participation. The average performance was 7 to 8 percent. As we said, we are not satisfied with that, and we are targeting to increase it in the 10-, to 15-, to 20-percent range in fiscal year 1985.

The only other comment I would make, Mr. Chairman, is at least two of the contracts which I believe you alluded to are extremely high technology with very demanding computer software and other technical features. In some instances, it was simply not possible to find both a logical way of creating a subcontract situation and a qualified performer for that situation.

Mr. MITCHELL. On those highly technical contracts, did you submit some sort of waiver or something to exempt you from the law?

Mr. CONCKLIN. We submitted in each case small business plans for small business participation, which varied from 15 to 100 percent. But again the component for small and disadvantaged business was not there because we simply could not find qualified performers.

With respect to the overall small business performance, I think, if examined, it would show very well.

Mr. MITCHELL. OK. I don't think I have much of an argument in terms of your commitment to small businesses. What I do have concern over is the lack of any kind—for the use of a better word—any kind of parity for small and disadvantaged businesses. That is just consistently low throughout your testimony. Certainly if you averaged out just your small and disadvantaged businesses, you wouldn't come anywhere near the 8-percent figure that you have arrived at for small business.

Mr. CONCKLIN. I am sorry. I may have misstated, Mr. Chairman. The important point, I believe, is that we have in the last 2 years, that is 1982 and 1983, achieved a small disadvantaged business participation percentage of 7 and 8 percent. We are not satisfied with that, and are seeking to increase it through the various means that Mr. Monroe articulated.

Mr. MITCHELL. OK.

Mr. Russell, I wanted to ask you a question or two.

Your business is booming. It is growing every year in terms of your contracts from 1981, 1982, and 1983. You started at 219 and now, in 1983, it is 289 plus. But for your small and disadvantaged, your percentage has gone down in each of those 3 years. According to your testimony, in 1981, it was $1.6 million, or 4 percent; in 1982, it was $1.2 million, and I don't think I jotted down the percentage. And though you moved mightily in terms of increase in prime contracts, in 1983, you dropped down to 3.4 percent and at $1.5 million. How do you explain this?

Mr. RUSSELL. Our total business, Mr. Chairman, is a wide variety of different types of contracts.

During calendar year 1981, the first year that we have listed here, we were operating, I think, 12 Job Corps centers for the Department of Labor. These contracts are contracts that particularly lend themselves to the extensive subcontracting to disadvantaged businesses. We lost a number of those contracts, in 1982 and 1983. This primarily accounted for our decrease in subcontracting to disadvantaged business. Then in 1983, we are moving up again, and we intend to keep moving up rather vigorously and go considerably above the level that we had in 1981.

Mr. MITCHELL. All right.

Mr. Russell, I know you have heard some little inkling about the prior hearings that we have had in this subcommittee. I have been especially troubled by the famous Fort Monmouth contract. I want to ask you a couple of questions about that contract.

What is the value of that contract right now?

Mr. RUSSELL. I would like to defer to Mr. Conners on this point.

Mr. MITCHELL. Sure.

Mr. CONNERS. I don't have the exact figure with me, but it is in the vicinity of $17 million.

Mr. MITCHELL. How much?

Mr. CONNERS. $17 million.

Mr. MITCHELL. $17 million.

Mr. CONNERS. Yes.

Mr. MITCHELL. What was the goal for subcontracting to small and disadvantaged firms?

Mr. CONNERS. We have had two goals. This is a 1-year contract with two 1-year options. The contract began in October 1982, and the first contract year ran through September 1983. The option was exercised for an additional year, and we are now in that second-year period.

Our small and small disadvantaged goals are cumulative on a contract-to-date basis, so we had the first year goal, and then we had reestablished a second-year goal. So I can address the first-year goal and the contract-to-date goal that has been established to take us through this second contract year, that is through October 1984.

The first contract year goal, that is, to cover the period October 1982 through September 1983, the dollar value for small business subcontracts was $1.83 million. The dollar value for small disadvantaged business was $43,200.

Mr. MITCHELL. All right.

Mr. CONNERS. Now, our performance against those goals in the first year, our actual dollar value for small business, was $2.6 million against the goal of $1.8 million, and $1,795 for small disadvantaged against a goal of $43,200. This was not a very good performance.

Mr. MITCHELL. An absolutely abysmal performance.

Mr. CONNERS. I agree with that.

Mr. MITCHELL. Do you want to do better next year?

Mr. CONNERS. Yes.

The contract was renewed and, therefore, the goals were changed to reflect now a 2-year performance period under the contract. So now we have kind of a contract-to-date goal period. The goals then established for the period October 1982 through September 1984 were small business, $4.194 million, and small disadvantaged business, $46,600.

Our performance against that through March of this year—that is 6 months into the current contract year—small business, $5,851,000, and small disadvantaged business, $17,575.

Mr. MITCHELL. That is below what you had in the year before, isn't it?

Mr. CONNERS. Sir?

Mr. MITCHELL. That is $17 what, $75 something?

Mr. CONNERS. $17,575.

Mr. MITCHELL. The first year was $17.9?

Mr. CONNERS. $1,795.

Mr. MITCHELL. $1,700.

Mr. CONNERS. Yes.

Mr. MITCHELL. All right. That is incredible.

Why do you set your goals so low?

Let me tell you why I put the question. There is a very, very effective New Jersey Minority Business Association statewide. I have met with them. They run the gamut in terms of the kinds of contracts they can fulfill—software computers, construction, across the board. It is one of the few States where you have a well-organized system, and with a wide variety of abilities to do contracting. Why are your goals so incredibly low?

Mr. CONNERS. Our original goals were set at 2 percent of what we had anticipated that we would subcontract.

Mr. MITCHELL. Did you feel that 2 percent was a fair goal?

Mr. CONNERS. It was our best estimate at the time.

You have to recognize the fact that we were not doing business in a particular community, we were not familiar with the community environment that we had to do business with, and it was a best estimate that we could put together at that particular point in time.

Mr. MITCHELL. Yet Mr. Williams, to his credit, has indicated that he has talked to his people and they know to do outreach. Certainly you have indicated that you have done that. You move all around the country and he does, too, and certainly your people are notified to do some outreach to find people. Why didn't that happen in your case?

Mr. CONNERS. We have tried this, sir.

One of the problems that we had with Fort Monmouth is the fact that we have three major service contracts. We have subcontracted trash collection, we have subcontracted pest control, and we have subcontracted janitorial services. Beyond those major subcontracts, the other things that we have purchased which provides opportunity for small and small disadvantaged businesses are primarily consumable supplies and materials. We buy a tremendous amount of building supplies. We buy electrical supplies, plumbing supplies, lumber, hardware, audiovisual supplies, these kinds of things.

Unfortunately, we have had a great amount of difficulty in trying to find small, disadvantaged firms who are in that particular business in that Fort Monmouth area.

It has improved. Our first year's performance was very dismal.

Mr. MITCHELL. When you let your janitorial subcontract, did you make any inventory as to what minority firms could perform that contract?

Mr. CONNERS. Yes, sir, we did. Operating under the rules that we must operate under, as far as the DAR provisions are concerned, we held a solicitation and a competition for that particular contract. I believe we invited 12 or 15 firms to participate, all of which were either minority or small business. It turned out—and we were disappointed in this—that there was an incumbent contractor who was a small disadvantaged firm who was performing that work under a prime contract with the U.S. Government. We were disappointed in that he did not retain the contract because he was significantly underbid by another small business company that was not a disadvantaged firm.

Mr. MITCHELL. All right. I am well aware of the history on this.

Mr. CONNERS. Unfortunately, if that contractor had been successful—and, of course, I think that, to some extent, we had depended on that—our performance the first contract year for small disadvantaged firms would have been up to 13 or 15 percent.

Mr. MITCHELL. Sure.

Mr. CONNERS. So that one action had a very significant impact on the statistics as you review them.

Mr. MITCHELL. I am well aware of the history on that, and I would be less than candid if I didn't tell you that I think that I don't feel that there has been a maximum effort made when you end up with such a small percentage, such low goals.

You will argue with me that, yes, we have made maximum effort. But I just don't feel that you have, and my bones tell me that there has not been a maximum effort.

Mr. CONNERS. Our performance the first year was very dismal. I think that, in the past 6 months, we have been able to place 15,000 dollars' worth of business with small disadvantaged firms. That, of course, is a significant increase over the first year. So at least the trend in the last 6 months has been significantly upward.

Mr. MITCHELL. That, in contrast with the dollar volume of the contract, is miniscule.

Mr. CONNERS. We are getting better known in the community. The business people are getting to know us better. The small and small disadvantaged business community is better able to deal with us. We are doing our best, but it has been just an uphill struggle.

Mr. MITCHELL. All right. I have lots of other questions, but I know Mr. Daub has some questions, so I will yield.

Mr. RUSSELL. If I could add just one point to that, Mr. Chairman. One of the difficulties that a contractor faces in this situation is complying with the DOD regulations for competition in subcontracting with no authority to limit competition to disadvantaged businesses. Under the standard DAR clause competition and subcontracting, and the procurement system that he has that must be approved by DCAS, it is extremely difficult to award a contract to a bidder who cannot come close to the low price for a particular requirement.

If there were some statutory authority for prime contractors to institute a program comparable to the 8(a) program in which we could make set-asides for minority-owned firms, then this would give us the opportunity to pursue that kind of business more extensively than we can under current regulations.

Mr. MITCHELL. I am completely cognizant of what is required by DAR. I am in complete disagreement by what at least you tangentially infer that minority subcontractors cannot come in with the competitive bid range. Look, I have been here almost 12 years, and I have seen this happen time and time again where, with proper search, you could find that firm is going to come in with a competitive bid. Something is wrong.

My last question is really not a question, it is a statement. Each of you have talked about incentives. Mr. Daub has been with me when this was raised in the past. I have a real serious concern—and I am not locked into a concrete position—but I have a serious concern about incentives to the private sector to comply with the law. That just sort of flies in the face of how we operate in this country. We don't give incentives for compliance with the law. The law is the law. I just don't understand why there is this tremendous emphasis on some kind of incentive.

I am looking at those two pages, 13 and 14, of the law which sets out in very specific terms what is required—you say that that acts as a disincentive. I, frankly, don't understand the disincentiveness of that law, except that you feel it is a law to be complied with, and you would take the position reward us for coming in with a better plan for utilization of small and disadvantaged business.

It is not really a question to you, it is a major concern that I have about giving an incentive for complying with the law. If we start down that road, it seems to me you do some enormous damage to the whole area of law compliance in this country, that you get something because you obey the law. I just lay that out on the record for you that that is an enormous concern for me, unless you have a comment you want to make on my comment.

Mr. MONROE. If I may comment on that, Mr. Chairman.

Mr. MITCHELL. Yes.

Mr. MONROE. I don't believe that any of us feel that we are not in compliance with the law. We submit the required small business plans as solicited by the agencies in their solicitations and as required by the law. Those plans are approved by the agencies, and we comply with those plans.

Perhaps if we were trying to portray a spirit rather than a rigid compliance, we feel that we do comply with the law. What we are seeing is that, as business people, if the agencies—and I don't think this—I agree with you that this is not the proper forum for solving this, it is probably not a statutory one—but if the agencies put a uniform system in whereby we could respond with plans that are meaningful and have larger participation than they do today without being penalized, but in fact incentivized, it would go a long way toward real accomplishment of your goals.

I consider that compliance of the law is essential. None of us want to break the law. I think we are all complying with it.

Mr. MITCHELL. Yes.

Mr. MONROE. We are talking about real increases in small business and minority small business participation.

Mr. Mitchell. To that I would respond that it seems to me the way you do that is through your built-in incentive program within your own corporation.

Mr. Monroe. The problem is the competitive world, sir. If we build in the incentive program and company *x* does not, we will probably lose the bid, because incentive programs cost money.

Mr. Mitchell. You built in an incentive program within your corporation, didn't you?

Mr. Williams. Yes, sir. But if I may extend that, to talk about obeying the law and still the problems with incentives and disincentives, let's take it out of this realm for just a moment. Let's talk about income taxes.

I know that, on my part, I obey the law in reporting my taxes right down to a gnat's eyebrow, because I know I am going to be audited very carefully. On the other hand, I must tell you, Mr. Chairman, I have a great deal of sympathy for people who are looking for ways to get money off the books, and the underground economy, and tax shelters and this sort of a thing because we have come up with disincentives to treat your income fairly in this country.

Now, if you break the law, you go to jail. We all know that, and the IRS pursues that very effectively. The fact of the matter is we also all know that we are losing a lot of income taxes because we have made the whole thing a game in which people don't believe they are being treated fairly, and the thing is too complex to even work out.

If you could provide incentives in the form of simplifying the income tax program and the income tax forms and make people believe that it is fair, my opinion—and apparently more people who are coming around us—believe you would collect more taxes.

If you take that back to this program—and that is all I am saying. Certainly none of us are going to advocate breaking the law—but we are saying that you are making it very difficult to obey the law. If these organizations could come up with something that would be fully understandable and not penalize us, because it actually is costing—in addition to reducing the possible competitiveness—it is actually costing us money to do this. It is reducing the profit of those of us who are trying to do these things.

Mr. Mitchell. OK. It seems to me that if you have one law, a very simple law that is applicable across the books in terms of two types of contracts, there is no competitive advantage to recruit anybody. I am saying that if the law were uniformly applied, that is all that I am seeking.

I would further say that I guess it is out of my experience as a black person that I am so concerned about incentives. For example, the school desegregation issue, and you say, let's give some incentives for complying with the law; an equal opportunity in employment, let's give some incentives for complying with the law. That just counter to the grain that I conceive of as America being, a law-abiding country.

Mr. Daub.

Mr. Latham. Mr. Chairman.

Mr. Mitchell. I am sorry, Mr. Latham.

Mr. LATHAM. I just wanted to make one comment, Mr. Chairman.

I agree with you absolutely about the law does not generate disincentives, but the implementation of that law from the various agency does.

Furthermore, I think the incentives that some of us have discussed this morning have worked quite well in the District of Columbia, where, as you know, there is a requirement where minority business participation is required from the beginning. Some of the problems that Mr. Russell mentioned as far as having to come up with those firms later and not being able to select those firms because their prices are too high, if you are preparing your proposal and can build them into your proposal in the first instance, you can select a firm and develop a proposal that is going to be acceptable and required in the law.

Mr. MITCHELL. Mr. Latham, you know the law and you know what is required. There is nothing to prevent you from building that in when you make your submission.

Mr. LATHAM. I agree with that. It would be a lot easier, using again the District of Columbia example, where every bidder has to be on the same footing and is required to do that.

Mr. MITCHELL. We are talking about uneven implementation of the law by the agency.

Mr. LATHAM. Correct.

Mr. MITCHELL. That is the problem we have to solve.

But in terms of the consistency of the law itself, the law is not the problem.

Mr. LATHAM. I agree with you.

Mr. MITCHELL. OK.

Mr. Daub.

Mr. DAUB. Gentlemen, I want to tell you that I appreciate the clear combined staff and corporate effort that you all made to prepare yourselves to be here today. The record is replete with helpful and, I think, constructive recommendations.

This is the one thing I find an absence of in the congressional process. We hold hearings and we hold hearings and we hold hearings, and everybody comes in to either protect themselves, defend themselves, but seldom do they come in offering the constructive comments that will help us to either solve your problems or do a better job in figuring out who to believe and what is right and what is wrong.

Let me also add that I guess this is not meant to be an intimidating process. Our particular subcommittee is focused on the small, but indeed more specifically, the small disadvantaged firms. So, please accept the framework in which you are here today, and that is to focus on what we are looking at in a narrow sense, and not at all be offended by the suggestion that what we are trying to do here is to make it tougher on you to make a profit. These are important goals. You have all publicly in this hearing—if not, in your conduct up until now—indicated how firmly committed you are to trying to seek the intent of the statute.

I have a difference of opinion with my chairman with respect to what happens in the process. A two-page law, which particularly says in the second page, subsection 6, delineates (a) through (f), and that gives the administrative agencies of our Government a field day because, from that, they promulgate hundreds and hundreds of thousands of rules and pages of regulations of right-hand, left-hand coordinating difficulty which, in fact, ultimately, in the final analysis, could be attempted to be enforced against a noncomplier as if, in fact, they were the law, and they are not.

That is a major difficulty we have when we try to establish good social policy, and what I happen to personally think is good business policy for America as we grow into an economy that is going to be labor short in the next 15 years.

Mr. MITCHELL. Would you yield to me for just a moment?

Mr. DAUB. I would be happy to yield, Mr. Chairman.

Mr. MITCHELL. I don't think we have a difference. At the very end, the last statement I made is that there are problems in terms of implementing the law. So I don't think there is any difference between us there.

Mr. DAUB. What we might be able to do is take a look after we are all done, Mr. Chairman—and I appreciate that coalescence of you—is to take a look at putting a section into this law that provides for some part of what we hear today from this panel, that some kind of uniformity across the agency side of this partnership that we are attempting to establish, particularly with Government money, these tax-paid dollars that are involved in the contracts that you and I are talking about today. I think that could be helpful. You have been constructive in offering suggestions, each of you, today.

Let me ask a couple of questions, but I want to make another point. I enjoyed reading the testimony from the private sector because, Mr. Chairman, you recall in our first two hearings with our Government people, I kept asking questions about how many, what was the frequency of the same firm getting the same 8(a) set-aside or the same subcontract, so that, year after year, as we look at your percentages of compliance, or at Government percentage of goal attainment, were we really not creating a learning curve of new entrepreneurial small and/or small and disadvantaged business, that some day may have the same opportunity some of you have had to go, from several thousand dollars of billings to several million dollars of billings?

You know, you can't be a colonel overnight in the Army. You have to be in and go through certain hoops and, what they say, punch every ticket to get up to that point. We are not going to have women generals overnight, the first day that they are in service. But I look forward to the day when we do have more women field-grade and senior-grade officers, but there is a learning curve.

I think it is probably particularly true in your businesses, in the high tech and in the soft side of industry, where that learning curve takes time. If we don't have this kind of a proper orientation in your businesses, then that learning curve 20 years from now isn't going to be there, and that is not going to help any of us.

So I think that if we have some patience about all this and would get Government to quantify how many businesses you deal with and are they the same businesses every year, so there isn't some successful vice president of a disadvantaged firm that figures out how to do it, leaves and starts his or her own business and starts to offer themselves to you as another contracting source, or are you doing business with the same people year in and year out, not just at Cherry, wherever it is, on your contract? Maybe all of you are doing business with the same small business and small and disadvantaged business. There aren't very many new ones starting or very many employees in those businesses getting into the learning curve.

I hope, Mr. Chairman, we work on our Government agencies to start to quantify, too, to see if we are getting some growth in the number of people who get the opportunity, let alone the number of businesses or the number of dollars that are granted.

So I commend you all for keeping the records you are keeping. I think you do us a great service.

RCA, Bill Russell, would you tell me, have you used the PASS system to try to help meet your goals?

Mr. RUSSELL. Yes, Mr. Daub. We have worked extensively with the SBA regional office and with the SBA headquarters in utilizing the PASS system.

We have found that, generally, the kind of runs that we get from the PASS system are not too helpful. Entirely too often we will get a run from the PASS system and find that 50 to 60 percent of the listings are no longer valid. The company has gone out of business; the company has changed its address, and they are simply not available.

Mr. DAUB. Small Business Administration directors, all those people, you are trying to get to help the Government offices targeted to your needs?

Mr. RUSSELL. Yes.

Mr. DAUB. Have you asked anybody on this committee or staff on this committee to help you out at all over the period of your dilemma?

Mr. RUSSELL. We came to this committee staff in early February to discuss our problems at Fort Monmouth specifically.

Mr. DAUB. Have you received any suggestions or help from this committee, or recommended lists of businesses that might be somewhere that you haven't discovered?

Mr. RUSSELL. No, sir, we haven't. It was indicated in one of the discussions that some suggestions might be available, but none have been forthcoming.

Mr. MITCHELL. Would you yield to me again, please?

Mr. DAUB. Of course.

Mr. MITCHELL. I really have some question about the propriety of this committee making those kinds of recommendations. I really do.

What I think this committee can do and should do is to provide you with a series of organizations, the National Minority Purchasing Councils, and so forth. Although we have a listing of many small and disadvantaged businesses, there is a question of propriety in making specific recommendations.

Mr. DAUB. I won't argue with that, Mr. Chairman. I was simply asking him a question. The chairman would certainly have to set the policy on whether we do that or not.

As a lawyer, for example, I take an oath, and I am not supposed to go out and recommend some other lawyer. I am supposed to give somebody who asks me a list of three, or a list of seven if I were an insurance agent. There is an ethic involved there. I didn't mean to suggest and trusting you wouldn't be sensitive to that. I just wanted to know what this committee has or hasn't done for the record. That is all. I appreciate the clarification from the chairman. Thank you very much for helping me in that regard.

Do any of you think that the rule on $500,000 is too high or too low? Could you comment on it, your feeling one way or the other? I am interested in some specific corrections to the law, and I have asked all the witnesses from Government, and now I would like to ask you. Is that $500,000 figure too high or too low? Does it present obstacles to you in your particular fields? Does anybody have any feelings about it one way or the other?

Mr. MONROE. I don't believe that we have any quarrel with that figure. It seems reasonable for the service of the business.

Mr. DAUB. OK. Anyone else?

Mr. RUSSELL. I think we also find it reasonable, Mr. Daub.

Mr. DAUB. Have you ever examined whether or not you are subcontracting with the same 8(a) firms over and over and over again, and you don't get anybody else coming in? Have you done any checking in your far-flung reaches of your corporate——

Mr. WILLIAMS. If you will accept a reaction as opposed to a statistic, I have one. In preparation for this presentation, I was furnished a list of small and small disadvantaged firms that BDM does business with. The impression I gained from my review of that list is that we are not doing business with the same companies over and over except where we have found ones that provide us with the quality, timeliness, and cost, control we value so highly.

I was pleasantly surprised to find that there were a large number of companies on that list whose names I did not recognize. I say I was pleasantly surprised about that because that means that our people are out finding companies that I don't personally know anything about. There was a time when I felt I was the small business advocate in the company. What this list tells me is that implementation of this program has been pushed down into the organization successfully, and we are finding and doing business with companies that I never heard of.

What I am about to say now is not a complaint, it is a comment on the American way, but it does create a problem when a company like Sterling Systems, which was a small disadvantaged firm and one with a very good reputation, is taken out of the small business category by being bought up, as Sterling was by Mr. Monroe's organization and they are no longer available for us to utilize under the 95-507 program.

We had planned to meet our subcontracting goal in a contract in Albuquerque with a particular small business. Halfway through the contract, they merged with another company and are no longer legally a small business. Although that is distressing from the point of view of meeting our goals, I think it would be hard for anyone to get upset about that sort of thing because that is the way we hope the economic system will work.

Mr. DAUB. Or if a small business wants a 43 percent greater profit than their lowest competitor and they lose their business and maybe they get too greedy, they will be out of business pretty soon.

Mr. **Williams**. That is right. As far as I am concerned, of course, that is the way it has to be. I don't think you can do much about it.

Mr. **Daub**. I appreciate your comments.

Mr. **Russell**. Mr. Daub, if I could add one other point on that. As I mentioned earlier, our corporate minority enterprise program sets goals, not only in terms of dollars, but in numbers of minority firms that we would patronize.

In calendar year 1983, we had a goal of slightly over 1,000 minority firms, and we actually did business during that year with 1,882. We exceed that goal by 75 percent. So this means a lot of new minority firms that our people sought out during that period.

Mr. **Daub**. I appreciate that. The list of criterion for recordkeeping purposes that you manage is one I would recommend to the Small Business Administration and to all Government agencies.

But I particularly would go further than that, sir. I would like you to tell me how many employees you had on payrolls within each of those small and minority disadvantaged businesses, because that would start to give me some of the meat that I want to see put on the bones. What I tend to find in some industries is just some of the bones. I am interested in that, and it is statistically kind of hard to get at it. I am not asking you to go back and look, but let me just indicate for one Member of Congress that I am trying to go down deeper into it. You sort of said it and you are saying it in your statistical recordkeeping. Start to evaluate, does that mean just 2 people, a consultant and a telephone switchboard answering service/secretary combined with a name and a piece of paper that goes to a print shop, or is this a small and disadvantaged firm that has 2, 7, 30, 90, 300 employees, and are they majority or minority? Is it a front operation? Is it a joint venture to comply with the Government's requirement in your plan?

I am particularly asking this question because I am looking at some amendments to our statute, and I want to get a feel for it.

I think I am satisfied that RCA recognizes its serious problem at Fort Monmouth. You admit it and we appreciate it. We expect that your planning and your corporate management now is looking very carefully at it, that there will be a combined effort to improve that situation. We are hopeful in that regard.

It does appear that there has been increased small business in the base maintenance activity. Did I hear you right when you were saying a minute ago that this last 6-month period in the contracting out is starting to bear some fruit there.

You didn't have this Fort Monmouth contract until a year and a half ago.

Mr. **Russell**. That is right.

Mr. **Conners**. We have always been successful in Monmouth in exceeding our small business goal. That has been going off the charts. The problem has been the disadvantaged, the small disadvantaged companies. In the last 6 months of performance, our rate of placement of business with small disadvantaged firms has gone up significantly.

Mr. **Daub**. Look at an opportunity. It may be 10 miles away, it may be 40 miles away, it may be 400 miles away. I realize there is some limitation relative to how much you can spend that aren't your rules, they are the Government's rules. But there are opportunities, I think, in that field and other fields that may be some distance away that can help you meet your goals. I would encourage you to explore recommendations from the various agencies that can help you locate business opportunities.

We all have to gain, as I said before, expertise in the learning curve. You are learning the hard way.

Mr. **Russell**. Yes; we are.

Mr. **Daub**. So are we.

I want to make one other point, Mr. Chairman, and then I am finished.

Mr. **Mitchell**. Sure. Take your time.

Mr. **Daub**. In your testimony that was first offered to the committee, you presented a series of recommendations. I would like you to comment first, if you would, Mr. Monroe, and if anyone else at the witness table would like to, I would appreciate it, for the record.

Are you satisfied that we ought to proceed under this statute on a contract-by-contract basis, or would there be any merit to a single goal for corporate form or a set of two goals that could blend, one that would be overall, because maybe in one field you can really find an opportunity to lend a helping hand and to develop learning curves and comply with the intent of this law, and maybe there is a category two from time to time? Or, as was said just a minute ago by Mr. Russell, you lose a couple of Job Corps contracts or whatever it might be and your percentage flops, and you were counting as you forecasted your goal on these opportunities, but you lose them. You can't go out in 2 days and get a contract where you can reestablish that chunk of goal that you lose.

Would overall corporate goal and then separate subcontract goals be more workable if we added something like that to the Government's view of your compliance? Is your business, in its conglomerate form or its parent form, really reaching out, or do you suppose this separate contract-by-contract business might even give you the excuse to escape and evade the real intent of the law?

Mr. **Monroe**. My belief is that statistically you have more flexibility to comply with the real intent of the law if goals were at a higher level, that is an overall corporate goal.

Again, one wonders if you can get the right contracts with the right Government agencies to where, on a piece-by-piece basis, you can ever come up with that overall goal. As the law is now interpreted and administered by the agencies, we probably are safer on a contract-by-contract basis, because we clearly do have to respond to the intent of the agency.

Mr. **Daub**. So it is sort of a mixed thing, a catch-22? It is probably OK the way it is?

Mr. **Monroe**. I believe so.

Mr. **Daub**. Anybody else?

Mr. **Russell**. We see a lot of merit, Mr. Daub, to the idea of a corporatewide or at least a profit centerwide common goal rather than breaking it down to the individual contract level, because the wide variety of types of contracts that we have makes it extremely difficult for us to come up with reasonable performance under some contracts. For example, one of the contracts that we have is to operate and maintain aircraft control and warning radar sites at remote locations in the State of Alaska.

Mr. **Daub**. Are you going to hold one of your conferences up there?

Mr. **Russell**. We haven't scheduled one as yet.

Mr. **Mitchell**. Make it in July. It is very pleasant up there in July.

Mr. **Russell**. That is about the only time of year it is reasonable to visit there.

But it is extremely difficult at one of these remote locations in Alaska to come up with functions that can be reasonably subcontracted. Contrasting that with other programs, such as the Job Corps centers that I mentioned earlier, we have many opportunities for subcontracting to small and small disadvantaged businesses in the operation of a Job Corps center.

So I would think that a profit center goal as a percentage of our total volume of sales in that profit center would give us a great deal more flexibility, but as Mr. Monroe points out, it would also require more discipline in our own organization to translate that profit center goal into individual contracts.

Mr. **Daub**. I think that the solution in Alaska might not be aloof.

Mr. **Russell**. That is right.

Mr. **Daub**. The point I guess I would be getting out—and you may want to think about it and provide us with your input later on—is in our small business size standards, we have seen some need for distinguishing levels, for example, in professional engineers, or we are having some trouble with the dredging contract size standard. You have this problem that was pointed out in some of your testimony—and the Government people testifying in the last two hearings did, too—and that is the problem with the physical construction of a runway or a highway or a bridge, as distinguished from the providing of services that are technical and are soft.

It is most impressive to note, for example, the 41 percent figure relative to Pentagon procurement in the soft side versus on the hard side.

I see a need for developing some distinguishing feature for this kind of business that you are all in. Indeed, it is different from the contractor of dam, hydroelectric, barge type of river maintenance, and harbor type stuff. So I think maybe there is an area we need to explore, and an overall soft corporate might very well have some legitimate distinction, as we have done in the size standards for soft kinds of businesses versus hard kinds of businesses, if I can describe it that way.

So I appreciate your comments. I am exploring and fishing on it, and I appreciate the divergent point of view.

Thank you, Mr. Chairman, for your time.

Mr. **Mitchell**. Just to complete this first panel, I want to read into the record a statement from the 1982 report of the Committee on Small Business with regard to minority business development efforts of the Small Business Administration. I read it into the record to amplify on my earlier statement that I am aware and the committee is aware of the difficulties that are encountered in terms of implementing the law.

Under the subcontracting program we indicate in No. 5:

> There is a lack of consistent and uniform interpretation of both the statute and the implementing regulations by the Federal agencies. In fact, we have found inconsistencies within each single agency.

I won't complete the rest of it, but I want to make you aware of the fact that we have already looked into the problem of implementation, and we certainly intend to continue to ride herd on that. It is kind of difficult to get agencies to comply. I say that because the basic law is sound. It is a question of implementation.

The other thing I was just advised of is that the majority and the minority staff did meet with the representatives on the Fort Monmouth contract. That meeting took place after the first year of operation, not during the first year. So there was no effort made during the first year to elicit help from us.

Thank you very much, gentlemen, for your contributions and for your participation.

Our next witnesses consist of Gary Dean, who is the group director of materials and central services of National Semiconductor; Ed Cypert, small and small disadvantaged business liaison officer for the electronics and defense sector of TRW; and Cornelius Shea, procurement manager for the communications systems division of GTE Government Systems Corp.

Gentlemen, thank you very much for taking the time to come to us and give your testimony.

Let me say while you are getting settled in that we have received copies of your testimony. If you so desire, you can merely give us the highlights of your testimony, because the entire testimony will be submitted officially for the record of this hearing. The option is yours.

Mr. Dean.

TESTIMONY OF GARY DEAN, GROUP DIRECTOR, MATERIALS AND CENTRAL SERVICES, NATIONAL SEMICONDUCTOR CORP., ACCOMPANIED BY JOHN CALLAHAN, MANAGER OF CONTRACTS, AND JOHN MERCER, MANAGER OF GOVERNMENT AFFAIRS

Mr. **Dean**. Mr. Chairman, members of the subcommittee, ladies and gentlemen, I chose to go over my entire testimony. I think it is pertinent. The National Semiconductor industry is somewhat unique, and I think it is pertinent that I show some background.

Mr. **Mitchell**. Sure.

Mr. **Dean**. I am Gary Dean, group director of materials and central services for National Semiconductor, and I am representing National Semiconductor at this hearing in response to your letter of March 20. Also present are John Callahan, on my right, who is manager of contracts; and John Mercer, on my left, who is manager of Government affairs.

I would like to begin by letting you know a little about National Semiconductor. National Semiconductor, through its semiconductor division, designs, manufactures, and markets a broad range of semiconductor products, including integrated circuits, discrete devices, hybrid devices and subsystems, and optoelectronic devices. National Semiconductor's Datachecker-DTS subsidiary manufactures, markets, and services point-of-sale systems and electronic cash registers for retail businesses, while our National Advanced Systems subsidiary markets and services IBM-compatible mainframe computers and peripheral equipment.

National Semiconductor has for several years followed a policy of attempting to place a significant portion of its procurement with small and small disadvantaged businesses. We have consistently encouraged technically and financially qualified small business suppliers to submit proposals for our consideration. The results have been encouraging. Our purchases of goods and services for small businesses for the last 3 fiscal years are as follows: For our fiscal year 1982, which ends May 31, we purchased $31.7 million; for fiscal year 1983, it was $31 million; and for our current fiscal year, we anticipate that to be $53 million.

Mr. MITCHELL. I am sorry, I was distracted for a moment. That was small business?

Mr. DEAN. Small business and minority business.

Mr. MITCHELL. Small and small disadvantaged. OK.

Mr. DEAN. Correct.

These purchases represent a little over 12 percent for fiscal year 1982, and 13 percent for fiscal year 1983. We anticipate that, for fiscal year 1984, 18 percent of our total procurement will go to small disadvantaged and small businesses.

The committee should understand that the above small business procurement is for the company's Semiconductor Division as a whole, and is not specifically related to purchases for Government projects. The vast majority of National Semiconductor's total sales are to commercial nongovernment customers. Although National Semiconductor places a great deal of importance on its role as a key supplier of semiconductor devices to Government programs, the sales volume of this Government business is only a fraction of the company's total sales.

The sale of semiconductor devices to prime and subcontractors to the U.S. Government is the responsibility of our National Mil Aero Division, which recorded the following sales during the last 3 fiscal years: For fiscal year 1981, it was $66 million; for fiscal year 1982, it was $47 million; for fiscal year 1983, it was $59 million; and for our current year, fiscal year 1984, we anticipate that to be somewhere around $70 million.

These sales represent only 5 percent of our total corporate sales for the same period. So approximately 5 percent of our total sales goes to Government programs.

National Semiconductor has had only limited experience with the specific documentation requirements imposed by Public Law 95-507. National Semiconductor was first required to file a small/small disadvantaged business subcontracting plan in July 1981, when we were awarded a $7.4 million subcontract by Westinghouse for the combined Army/Navy and Air force VHSIC, which is a very high speed integrated circuit program. VHSIC is a cost-plus-fixed-fee research and development effort requiring design, development and production of a 1.25-micron chip set. The Westinghouse/National Semiconductor chip set is comprised of five different chips all at 1.25 micron geometries (1.25 microns indicates the distance between (metal traces) wiring in the chips).

To give you an idea of the complexity, 1.25 microns is roughly one-third the width of a human hair. To provide another example, National Semiconductor's device has 400,000 separate transistor circuits on this one-quarter by one-quarter inch chip.

Our portion of the VHSIC contract provides very little opportunity for outside purchases or subcontracts. National Semiconductor, therefore, filed the required subcontracting plan showing a zero percentage goal for both small and small disadvantaged business procurement. This plan was accepted. Expenditures on the VHSIC program to date are approximately $11 million, including material expenditures of $300,000. Over 80 percent of the $300,000 in material expenditures is for maskmaking services from other National Semiconductor locations.

As in the case with VHSIC, nearly all National Semiconductor's Government business is subcontracting work for other prime or subcontractors. National Semiconductor has received only one prime contract requiring the filing of a small/small disadvantaged business subcontracting plan. This was a $2,752,000 contract from Warner Robbins Air Force Base for our NMC2816 memory devices. The contract was dated May 6, 1983. Since the contract was for specially tested devices produced to existing National Semiconductor specifications, no opportunity for outside purchases or subcontracting existed. Again, National Semiconductor filed a plan with a zero percent goal for both small and small disadvantaged business subcontracting. National Semiconductor assumes the plan was found acceptable since nothing further was heard on the matter.

Although National Semiconductor has consistently attempted to place business with small and small disadvantaged businesses within the context of its primarily commercial orientation, National was informed in June of last year that DCAS and SBA would audit our small business program. The audit was originally scheduled for July 17 of last year, and was ultimately performed on November 16.

It was during this audit that National Semiconductor first became fully aware of the volume of documentation required to adequately support our small/small disadvantaged business policy. The auditors, apparently realizing this was the first time National's program had been reviewed, deferred judgment on National's compliance and provided a list of documents required. National Semiconductor has formally designated a plan administrator, published written evidence of top management support, set up all appropriate systems to generate the required records, and submitted proposed small and small disadvantaged business subcontracting procedures to both DCAS and SBA for their approval. They have since given us tentative approval on both. National Semiconductor will continue to work with these agencies and expects to be in full compliance at the time of the next audit.

In conclusion, I would like to assure the committee that National Semiconductor fully understands and intends to honor its obligations regarding small and small disadvantaged business subcontracting. We have made significant efforts in the past and are pleased with the results as documented earlier in my testimony. The progress demonstrated over the last year, in which small business participation was increased from 12 to 18 percent of total procurement dollars, is especially significant and encouraging.

Thank you.

Mr. MITCHELL. Thank you very much.

TESTIMONY OF H.E. CYPERT, JR., SMALL AND SMALL DISADVANTAGED BUSINESS LIAISON OFFICER, ELECTRONICS AND DEFENSE SECTOR, TRW, ACCOMPANIED BY O.R. BRAISDEN, DIRECTOR, PROCUREMENT POLICY AND BUSINESS MANAGEMENT, AND J.A. CAMPBELL, SMALL BUSINESS SPECIALIST, ADMINISTRATIVE SERVICES DIVISION, TRW

Mr. MITCHELL. Mr. Cypert.

Mr. CYPERT. Mr. Chairman and members of the subcommittee, I am pleased to appear before you today to testify regarding TRW's implementation of our subcontracting program under Public Law 95-507.

I am Edward Cypert, material operations manager within the operations and support group of the electronics and defense sector of TRW. I represent Dr. George Solomon, our executive vice president, and Hugh Brady, our operations and support group vice president, who is our lead executive for these programs.

My program capacity is that of the small disadvantaged business liaison officer for our common usage procurement system, which is applicable to the electronics and defense sector.

I am accompanied by O.R. Baisden, here on my right, who is our procurement policy director, and also our small and small disadvantaged business administrator, and also by Messrs. James Campbell and Charles Rapp, right behind me, who are small and small disadvantaged business specialists.

Mr. Chairman, with your permission, I would like to summarize the more detailed statement which we submitted on April 17 which I request be printed in full in the hearing record.

Mr. MITCHELL. It will be printed in its entirety for the record.

Mr. CYPERT. Thank you.

That statement contains specific numerical references from our E&D program.

The detailed statement provides comments in five areas in addition that are described in your letter inviting us to testify. Today I will just highlight the key points and make several observations about our small and small disadvantaged business program.

TRW is very proud of its record. In 1971, our small and small disadvantaged business program was developed and implemented on a voluntary basis in furtherance of our desire to generate subcontracting opportunities for this segment of the business community. Our records, validated by the Small Business Administration, reveal that our dollar volume of small businesses has steadily increased over the years. TRW E&D, as major defense contractor, is under the cognizance of the Air Force for contract administration. The Air Force has manifested a strong surveillance and approval role in both the qualitative and quantitative aspects of our programming.

One example of this interaction is the setting of annual goals for both the small and small disadvantaged businesses by the Air

Force Contract Management Division. We are pleased to report that we exceeded these goals during each of the fiscal years 1981, 1982, and 1983. This increase is a direct result of our efforts to expand utilization of these firms and not to be merely satisfied with meeting goals.

Based on TRW's past performance and the company's current and future commitment to our subcontracting program, I want to reaffirm our strong management commitment to provide maximum opportunity for small and small disadvantaged businesses to participate in the performance of TRW contracts. This commitment is supported by the executive management of TRW who provide me with full support regarding resources and leverage.

Our most critical success element might well be the human factor. We pride ourselves in being an open company in terms of communications and interaction, both horizontally and vertically. We work hard to inform and train our people with regard to both our legal responsibilities to comply with Public Law 95-507 and our obligations as a company to enhance the economic, social and cultural climate of communities in which we do business. Although Public Law 95-507 requires separate plans for each contract, we have chosen to augment our information and action network by successfully linking our overall small disadvantaged business program into our affirmative action program to bring a number of additional committees and outreach mechanisms into play. This linkage between the AAP and small disadvantaged business program gives rise to a recommendation I offer for the subcommittee's consideration.

We presently negotiate one overall plan for our AAP activities, although there may be many microgoals within specific job groups for persons of a particular ethnic background or sex. I submit that a more cost effective execution of our small and small disadvantaged business program could result from the negotiation of a single plan at the E&D level or with the same organization now covered by approximately 130 separate contract plans. The administrative savings from the elimination of individual negotiation and reporting could be more productively used to identify, develop, and qualify additional sources. The government would then have an increased leverage, in that a contractor's ability to bid on any program would be the result of that contractor's performance over the spectrum of all contracts in-house.

We use a number of outreach activities to locate, develop, and qualify and assist small and small disadvantaged business in doing business with TRW. We have developed a brochure entitled, "A Guide to Doing Business With TRW" of the electronics and defense sector that will be utilized by our prospective subcontractors to aid in this process. A copy of the brochure I believe you all have before you.

We conduct a number of symposia wherein we interact at the management, technical, and contractual levels with prospective small and small disadvantaged suppliers to enable us to understand their capabilities, and them to understand the rigorous and complex requirements peculiar to contracting in our high technical environment.

At this point, let me enumerate the multifaceted issues inherent within the high technology environment in which we operate. Our technically complex state-of-the-art spacecraft communications and electronic subsystems require in the main major subcontractors who must invest large amounts of capital to not only start up, but to maintain and develop capability. As a consequence, we have difficulty in identifying small and small disadvantaged businesses who provide these products.

Our strategy, therefore, due to our technically complex business mix, is to enhance our efforts in increasing the total volume of non-high-technology business while continuing to qualify and search for high technical firms within the small and small disadvantaged business segment. Although subcontracting plans and individual contracts may reflect limited amounts of our high technology dollars awarded to small and small disadvantaged businesses, we believe that the overall percentage of total dollars awarded to small and small disadvantaged businesses speaks for itself.

We are committed to continue giving extensive administrative, technical, and financial support to qualified small and small disadvantaged businesses as subcontractors. We have provided technical support and assistance, including people, facilities, and equipment, as well as direct financial support via advanced payment and loans in order to develop and maintain our small and small disadvantaged business base.

Clearly we would not be able to maintain operations without the continued support of the many small businesses from which we acquire a wide variety of materials and services. Over the past 3 fiscal years, approximately 43 percent of our total purchase commitments were awarded to small businesses. Small business is an absolutely essential part of our supplier base.

Mr. Chairman, I hope that I have given you and the subcommittee a summary perspective of our management philosophies, methodologies, and results as they relate to our small and small disadvantaged business program. When the complexities of the high technology marketplace are considered, we firmly believe that our solid record of achievement in awarding contracts to small and small disadvantaged business is even more noteworthy.

I would like to conclude by again inviting the subcommittee's attention to the importance TRW places on its responsibilities as a positive force in the community in which it operates. One of our fundamental company objectives for the 1980's, as stated by our chairman of the board, Ruben F. Mettler, is to allocate a fair portion of our resources and skills toward effective participation in a wide range of community activities. As part of our principal strategies, we strive to consider carefully the economic, social and environmental impact of our business activities. This objective assures compliance from the part of TRW with the spirit, as well as the literal legal aspect requirements of Public Law 95-507.

Mr. MITCHELL. Thank you very much.

[Mr. Cypert's prepared statement with attachments follow:]

PREPARED STATEMENT OF H.E. CYPERT, JR., SMALL AND SMALL DISADVANTAGED BUSINESS LIAISON OFFICER, ELECTRONICS AND DEFENSE SECTOR, TRW

I am pleased to appear before you today to testify regarding TRW's implementation of the subcontracting program required by P.L. 95-507. I am Ed Cypert, Small and Small Disadvantaged Business Liaison Officer for the Electronics and Defense Sector of TRW and in that capacity am responsible for successful implementation of our subcontracting program.

In your letter inviting TRW to testify at today's hearing, you asked that we include specific information in five areas. I will address each of those areas in order and then provide some concluding comments.

First, you asked for a description of TRW's subcontracting program. The overall TRW E&D program is contained in the Master Subcontracting Plan for Small and Small Disadvantaged Business Concerns, a copy of which is attached to my statement as attachment 1. This plan is reviewed on an annual basis by the Air Force to insure consistency with the intent and requirement of P.L. 95-507. The Air Force's letter of approval of our plan for calendar year 1984 is included in attachment 1.

We believe our Master Plan is effective in insuring that the maximum practicable effort is exerted to identify, develop and utilize competent small and small disadvantaged business concerns as suppliers and subcontractors in support of TRW E&D programs. This is the goal of TRW and the purpose of P.L. 95-507.

Second, you asked for data relating to the Federal prime contracts received by TRW E&D and subcontracts awarded to small and small disadvantaged businesses. We believe the data in the following chart reflect the overall success of our program during the past three years.

		1981	1982	1983
1.	Total dollar value of federal prime contracts awarded to TRW E&D	$1,131,900,000	$1,222,487,177	$1,916,099,300
2.	a) Total dollar value of all subcontracts awarded by TRW E&D	$ 251,063,556	$ 301,306,369	$ 326,860,294
	b) Total number of all subcontracts awarded by TRW E&D	45,250	53,861	56,859
3.	a) Total dollar value of subcontracts awarded by TRW E&D to all small businesses	$ 101,984,908	$ 120,806,127	$ 154,205,680
	b) Total number of subcontracts awarded by TRW E&D to all small businesses	30,091	36,812	38,891
4.	a) Total dollar value of subcontracts awarded by TRW E&D to small disadvantaged businesses	$ 16,312,045	$ 19,439,537	$ 17,634,491
	b) Total number of subcontracts awarded by TRW E&D to small disadvantaged businesses	2,901	3,554	3,758

Using the above information, the following chart shows TRW E&D's awards to small and small disadvantaged businesses as a percentage of all our subcontract awards, both in dollars and number of subcontracts.

	1981	1982	1983
Percentage of Total Dollar Value of Subcontracts Awarded to Small Businesses (Line 3a ÷ Line 2a)	40.6%	40.1%	47.2%
Percentage of Total Dollar Value of Subcontracts Awarded to Small Disadvantaged Businesses (Line 4a ÷ Line 2a)	6.5%	6.5%	5.4%
Percentage of Total Number of Subcontract Awards made to Small Businesses (Line 3b ÷ Line 2b)	66.5%	68.3%	68.4%
Percentage of Total Number of Subcontract Awards made to Small Disadvantaged Businesses (Line 4b ÷ Line 2b)	6.4%	6.6%	6.6%

These data reflect results indicative of a well organized and effectively managed program. The percentage of total subcontract dollars awarded by TRW E&D to small business firms has increased from the forty percent range in 1981 and 1982 to 47.2% in 1983. Similarly, the number of awards made to small businesses as a percentage of total subcontract awards has increased from 66.5% in 1981 to 68.3% in 1982 and to 68.4% in 1983. Awards to small disadvantaged business as a percentage of total subcontract awards increased from 6.4% in 1981 to 6.6% in 1982 and 1983. We experienced a downturn in the dollars awarded to small disadvantaged business in 1983 as compared to 1982 ($17,634,491 in 1983 compared to $19,439,537 in 1982).

This single year decline is reflective of the vagaries of the high tech marketplace in which we operate which I will discuss in more detail later in this report. The fact of the matter, however, is that during 1983 our increase in Government business was of a mix which highly emphasized research and development activities as opposed to software and/or productional contracts. This product mix inhibited our ability to place additional dollars with small disadvantaged firms. Changes in the market place of this nature may yield results within a particular year similar to those experienced in 1983; however we remain committed to a long term goal of increasing the utilization of small disadvantaged businesses.

The third area you asked that we address is the extent to which program accomplishments are taken into account in evaluating the performance of acquisition personnel. In this regard, the basis for individual evaluation begins with the annual performance goals set for TRW E&D acquisition personnel -- buyers and their supervisors. These goals include individual and challenging targets for subcontract awards to small and small disadvantaged businesses which vary with the subcontracting opportunities available. Evaluation of goal achievement occurs monthly by senior management after review of a computerized report.

In addition to these individual goals, dollar volume goals are allocated to the various acquisition organizations at the beginning of each government fiscal year. As with individual goals, progress against these organizational goals is tracked and published monthly and reviewed by senior management.

Among the factors that go into evaluation of personnel for compensation increases and promotion potential, success in meeting these goals is a significant element for acquisition personnel. Top management emphasis also creates a spirit of competition in TRW E&D among the primary acquisition managers relative to meeting or exceeding goals. Additional emphasis is given to the program through recognition of outstanding participants by plaques presented at an award luncheon. TRW E&D's program of recognizing suppliers for outstanding performance also provides motivation since special emphasis is placed on small and small disadvantaged business suppliers who are in turn eligible for the Small Business Administration's "Subcontractor of the Year Award".

The fourth area of interest is the training TRW E&D gives for implementing our subcontracting program. As a key to the program of keeping our buyers current, TRW E&D requires that they attend a purchasing training course to obtain a procurement certification once every two years. The curriculum for this course includes understanding the spirit as well as letter of P.L. 95-507, developing subcontract goals and plans, demonstrating understanding of the definitions of small and small disadvantaged business and insuring compliance with subcontracting goals.

In addition, TRW E&D has developed a small and small disadvantaged business "Tracking Report System User's Guide" and provides formal training for subcontracting plan coordinators to insure consistent and accurate goal and goal achievement reporting. This is "how to" training for the acquisition personnel directly associated with developing subcontract plans.

Finally, you asked for a description of the changes we have made to our subcontracing program since enactment of P.L. 95-507. Clearly the most significant change has been the initiation of subcontracting plans for all TRW proposals and contract awards in excess of $500,000. The next most significant change is the preparation and submission of Standard Forms 294 and 295 for applicable contracts in order to report small and small disadvantaged business utilization. In order to effectively accomplish these first two changes, TRW E&D established an automated tracking system which records and reports subcontract awards by TRW E&D and highlights those to small and small disadvantaged businesses.

Other enhancements to our subcontracting program made since enactment of P.L. 95-507 are:

-- Established a small and small disadvantaged business liaison officer and administrator.

-- Expanded our supplier information database to include Small Business Administration company size codes.

-- Expanded the staff of the Supplier Information Center to implement the additional administrative work load.

-- Implemented training and motivational programs necessary to the success of the subcontracting program.

-- Implemented a goals allocation and subcontracting program tracking process for individual buyers and organizations.

-- Instituted the Procurement Automated Source System as the method of identifying potential small and small disadvantaged businesses (with about 100,000 now in the database).

-- Developed and implemented three new procedures in our Procurement Manual.

When P.L. 95-507 was enacted, quite frankly we expected it to be unduly burdensome. However, as we gained experience with subcontract plans and the reporting requirements, we found that P.L. 95-507 gave added impetus to the small and small disadvantaged program TRW E&D had developed and implemented on a voluntary basis in 1971. Our records over the past ten years, validated by the Small Business Administration, show that TRW E&D's acquisition dollar expenditures with small and small disadvantaged businesses have increased very substantially as a direct result of our efforts to expand utilization of these firms. Interestingly, many TRW E&D managers find that they like doing business with small businesses because their smaller size enabled them to be more responsive to our specific needs.

I would like to make several additional observations about our small business program. TRW E&D is proud of the success we have enjoyed in the execution of our program. Obviously, these achievements are the result of hard work at every level of the company. I am convinced that one of the primary reasons for the success we have experienced is strong support from top management. Each year our Division General Managers prepare and distribute a comprehensive Affirmative Action Plan for their organizations. A fundamental element of this planning document is the performance expectations in the area of Small/Small Disadvantaged Business Procurements. We have established an inter-group Procurement Management Council which provides the link between top management and the acquisition personnel across the Space Park complex. We have been told several times by Air Force officials, including Mr. Donald Rellins, Air Force Departmental Director, Office of Small Disadvantaged Business Utilization, that TRW E&D has an outstanding small business program.

At this point, a brief explanation of the high technology environment in which we operate is in order. Most of our technically complex, state-of-the-art spacecraft, communications and electronics systems require in the main subcontractors and suppliers who must invest large amounts of capital to not only start-up, but to maintain and develop their products. Most of these are classified as large business. Furthermore, because of the nature of TRW E&D's business, many of our high tech parts, subassemblies, assemblies and systems are procured in comparatively small quantitites, thereby limiting the economic attractiveness of business with TRW E&D.

Since the early seventies, the aerospace industry has suffered an erosion in the number of subcontractors, both large and small, wishing to do business with companies like TRW E&D who typically order small quantities and have very stringent technical performance, quality and reliability requirements. The factors impacting the marketplace have been more severe on small business than on the larger ones with more resources to draw upon. The following are several of the reasons for the fall out of small businesses from the industrial base:

- The uncertainties inherent in defense budgets - stretchouts, cancellations, time lapse between bid and award, and sporadic ordering.

- The flow down of government regulations which require an inordinate amount of paperwork. Many small suppliers do not have the sophisticated accounting systems required to accommodate some statutory requirements.

- Technological advances and the requirement for large capital expenditures have caused a decline in the number of qualified small businesses through the acquisition and amalgamation process.

- Many small businesses find that the commercial industrial or consumer market provides a better return of investment with less hassle.

The acquisition of successful small businesses by larger corporations is well illustrated in the electronic distributor business. Twenty years ago there were only one or two classified as large business. Today, almost all of the ones carrying the products we need are large nationwide, and a few, international corporations. The same is true with many manufacturers of electronic components.

When the complexities and inherent restrictiveness of the marketplace are considered, TRW E&D's solid record of achievement in awarding contracts to small and small disadvantaged business is even more noteworthy. We have redoubled our efforts to give extensive administrative, technical, quality assurance and financial support in order to qualify small and small disadvantaged business as subcontractors. Our steadily increasing volume of commitments to the small business community is a direct result of our efforts to expand utilization of these firms in both the high tech and non-high tech areas.

The following are examples of some of these efforts and are presented in order for you to understand the breadth of the TRW E&D program. These efforts are undertaken by TRW E&D in addition to the above in order to fulfill the intent of P.L. 95-507.

To assist our buyers in the utilization of small and small disadvantaged business the following research data is maintained in our Supplier Information Center.

Small Disadvantaged Business Concerns

- California Minority Business Directory
- Try Us - a National Minority Business Directory
- Los Angeles Regional Purchasing Council Directory of Minority Suppliers
- City of San Diego - Southern California Minority Vendor Directory
- California Office of Minority Business Enterprises (CAL-OMBE)
- The Small Business Administration's firms in the 8(A) Business Development Program
- New England Region Comprehensive Minority Business Listing
- Directory of Minority and Woman-Owned Architectural and Engineering Firms
- UIDA - United Indian Development Association

Small Business

- Directory of the Small R & D Companies
- Buyers Guide - National Tool Die and Precision Machining Association
- U.S. Industrial Directory
- California Manufacturers Register
- Southern California Business Directory and Buyers Guide

TRW E&D participates in procurement conferences, trade fairs and regional councils. Some of the events TRW E&D recently attended are:

- Orange County Minority Business Opportunity
- 16th Annual Joint Industry/SBA Procurement Council

- Black Businessman Association Luncheon
- Small Business Conference
- Small Business Development Conference
- Southern California Small Business Economic Utilization Council
- Southern California Regional Purchasing Council Breakfast
- Joint Conference Minority Business Seminar
- TRW E&D Sponsored S/SDBC Conference
- Black Caucus Minority Business Seminar
- National Science Foundation, SBA, Federal Hi-Tech Conference

We at TRW E&D sponsor small and small disadvantaged business forums as an integral part of our outreach efforts. During 1983 a total of 30 small disadvantaged business firms participated in forums held at TRW E&D enabling these companies to make presentations of their capabilities to project personnel. We also issue a quarterly Small Disadvantaged Business Concerns Bulletin which:

-- Identifies minority businesses currently doing work for this organization

-- Identifies individuals making the referrals

-- Describes type of product and/or service being performed

-- Publicizes forums

-- Encourages additional referrals

-- Recognizes personnel for outstanding performance in this area

Our Supplier Information Center publishes "A Guide to Doing Business with TRW" and a booklet identifying all of the company acquisition personnel and the goods and services they procure. These booklets are provided to the small and small disadvantaged business concerns at procurement conferences and trade fairs.

A small disadvantaged business in Santa Monica, California received technical and managerial assistance in completing a spacecraft structural strut.

A small business firm in the state of Michigan was given a corporate loan enabling them to withstand financial difficulties and deliver critical parts on schedule.

The following are several examples of TRW E&D's National and Regional involvement in the Small and Small Disadvantaged Program:

- Member of EIA and AIA Industry Association Small/SDBC/WBE/LSA Liaison Officer
- AIA and EIA Management Representative to TRIAD Small/SDBC/WBE/LSA Administrator
- Member of National Minority Supplier Development Council
- Member of Southern California Regional Purchasing Council
- Member of Black Professional Engineering Association/Member of Joint Conference for the increased utilization of minorities
- Member of Board of Trustees of Mexican American Opportunity Foundation
- Member of the Industry Panel for United Indian Development Association

To summarize briefly, TRW E&D has implemented intensive managerial, organizational, communicational, motivational and outreach efforts directed toward compliance with both the letter and intent of P.L. 95-507. Our high level of management commitment to this program has been communicated to our entire work force in a clear, unambiguous manner. We have structured a management review process to assure ourselves that our planning and acquisition activities recognize the value of developing, maintaining and utilizing a viable small/small disadvantaged business base. We have been proactive in our relations with small/small disadvantaged firms in providing needed information, technical assistance, procurement guidance and support in an ongoing effort to widen our small/small disadvantaged supplier base. The fact that we operate in a high technology area wherein we are often pushing the state of the art increases our challenge and we believe, makes our results more noteworthy.

Mr. Chairman, TRW is proud of its participation and interaction in a wide range of community activities. One of our fundamental corporate objectives for the 1980's is to allocate a fair portion of our resources and skills to effective participation in a wide range of community activities. As part of our principal strategies, we strive to consider carefully the economic, social and environmental impact of our business activities. Our subcontracting program, and specifically, TRW's support of P.L. 95-507, was developed and implemented with this objective in mind.

I would be pleased to answer any questions members of the Subcommittee may have.

MASTER SUBCONTRACTING PLAN
FOR
SMALL AND SMALL DISADVANTAGED
BUSINESS CONCERNS

DATE: 21 December 1983

TRW, INC.
ELECTRONICS AND DEFENSE
ONE SPACE PARK
REDONDO BEACH, CA 90278

This Master Subcontracting Plan is established to be consistent with the intent and requirements of Public Law 95-507, implementing the provisions as they apply to small business and small businesses owned and controlled by Socially and Economically Disadvantaged individuals, and is to be used by organizations within Electronics and Defense in performing contracts with agencies of the United States Government.

This program applies to the following TRW Electronics and Defense Groups, all located at the above mentioned address:

TRW DEFENSE SYSTEMS GROUP (DSG)
TRW ELECTRONIC SYSTEMS GROUP (ESG)
TRW OPERATIONS AND SUPPORT GROUP (O&SG)
TRW SPACE AND TECHNOLOGY GROUP (S&TG)

Approval Signatures:

O.R. Baisden
Director
Procurement Policy and
Business Management
TRW, Operations and Support Group

H.E. Cypert, Jr.
Small/Small Disadvantaged
Business Liaison Officer
TRW, Operations and Support Group

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1.0 INTRODUCTION

With the assistance of the National Minority Business Council, Small Business Administration, and leaders in the small and minority business community, TRW Electronics and Defense has an on-going program of identifying small and disadvantaged business concerns (hereinafter referred to as Small/Small Disadvantaged Business Concerns (S/SDBCs) as potential sources of supply. This program is summarized within the context of this Plan and is described in detail in the applicable TRW common use policies and procedures.

It is significant to note that our S/SDBCs Program was developed and implemented on a voluntary basis (1971) in furtherance of our desire to generate subcontracting opportunities for this segment of the business community. Policies and procedures have been developed which establish a formal program and provide the necessary guidance to our procurement personnel. Our records, validated by the Small Business Administration, reveal that our procurement dollar expenditures with S/SDBCs have substantially increased during the past nine years as a direct result of our efforts to expand the utilization of these firms. As part of this aggressive aproach, TRW's Small/Small Disadvantaged Business Subcontracting Program is an integral part of the operating procedures of each Product Group to which this Plan applies.

Based on TRW's past performance in subcontracting with S/SDBCs, and on the Company's current and future commitment to Socio-Economic Programs, this Plan serves to reaffirm that commitment and, when augmented by specific goals, provides a system which will afford the maximum, practicable opportunity for S/SDBCs to participate in the performance of TRW contracts.

2.0 PLAN

2.1 Administration

This Plan sets forth the administrators who have cognizance over the individual subcontract plans and are responsible for performing the tasks described below.

Group	Administrator	Title
TRW Defense Systems Group	C.R. Spangler	Director of Subcontracts and Materiel
TRW Electronics Systems Group	R.E. Agnos	Director of Contracts /Subcontracts
TRW Operations and Support Group	D.C. Treen	Manager, High Reliability Procurement
TRW Space and Technology Group	B. Roseman	Director of Subcontracts and Materiel

The Administrator:

- o Works with each first and lower tier subcontractor to search for and develop qualified S/SDBCs as sources of supply.
- o Works with and provides input to the O&SG Materiel organization's Small/Small Disadvantaged Business Liaison Officer, as deemed necessary, to properly administer this Plan.
- o Coordinates with the Small/Small Disadvantaged Business Community and Government Agencies to expand the TRW list of potential subcontractors.
- o Assists S/SDBCs in preparing bids and arranging the engineering and quality assurance support needed to meet specifications and other documentation requirements.

2.1 Administration (Continued)

- o Acts as an intermediary between the Customer, the Small Business Administration, and the O&SG Materiel Organizations's Small/Small Disadvantaged Business Liaison Officer on matters pertaining to the administration of this Plan.

2.2 Opportunity to Compete

Based on maximum utilization of the data bases available to procurement personnel, wherein the vast majority of possible sources of supply for requirements are listed, those employees with source selection authorit can and will optimize S/SDBCs' opportunity to compete for subcontracts.

2.3 Subcontract Clause

TRW will include DAR 7-104.14 (a), or NASA-PR 1.707-3 (a), or FPR 1-1.710-3 (a), or FAR 52.219.8 (as applicable), "Utilization of Small Business and Small Disadvantaged Business Concerns," in all subcontract issued in performance of applicable projects. Additionally, except for small business concerns, TRW will include the flow-down requirements of DAR 7-104.14 (b), or NASA-PR 1.707-3 (b), or FPR 1-1.710-3 (b), or FAR 52.219.9 (as applicable), "Subcontracting Plan for Small Business a Small Disadvantaged Business Concerns," in all subcontracts in excess o $500,000 issued in performance of applicable projects.

2.4 Reports, Studies and Surveys

Periodically, TRW will submit such reports as Standard Forms 294 and 29 and cooperate in any studies or surveys as may be required by the Customer or the Small Business Administration.

2.5 Records

TRW will maintain records consistent with the requirement of this Plan and Company policies and procedures supporting implementation of one of the following, dependent upon the individual contract's applicability: DAR 7-104.14 (b), NASA-PR 1.707-3 (b), FPR 1-1.710-3 (b), and FAR 52.219.9 (as applicable). Records will be available at all times to support review of progress against goals by TRW management and the Government.

3.0 IMPLEMENTATION

3.1 Approval Authority

This Plan is implemented under the authority and approval of the Principal Administrative Contracting Officer. By its attachment hereto, the approval letter of the cognizant Contract Administration Office becomes an integral part of this Subcontracting Plan.

3.2 Policies and Procedures

TRW Electronics and Defense maintains a comprehensive set of policy and procedure manuals which define Company standard business practices. These manuals describe management responsibility and provide Company guidance and intent relative to the implementation of Government contracting policy. Company subcontracting policy relative to S/SDBCs is covered by Procurement Manual Nos. 701/703/706. TRW's policies and procedures have been updated to reflect the requirements of DAR 7.104.14 (b), NASA-PR 1.707-3 (b), FPR 1-1.710-3 (b), and FAR 52.219.9 (as applicable).

3.3 Management Interest and Involvement

TRW project, line, and administrative managers at all levels have a strong commitment to the success of our subcontracting efforts with S/SDBCs. Their interest and involvement is demonstrated by active participation in developing and implementing plans for achieving quantitative and qualitative subcontracting goals.

The Project Manager, a senior TRW manager, is responsible for mobilizing Company resources to meet contractual commitments of the project, including those for subcontracting with small, women-owned and small disadvantaged business concerns. He continuously reviews project performance against contract requirements. Any deviations from planned performance which constitute real or potential problems becomes the subject of immediate corrective action by the Project Manager, acting with the assistance of line and administrative staff managers as needed.

General Managers of the four TRW Groups cited in this Plan conduct a periodic review with major project managers to assist in problem solving and to provide guidance on policy issues.

3.4 Training and Motivation

TRW's Defense Systems Group, Electronic Systems Group, Operations and Support Group, and Space and Technology Group conduct extensive internal training courses for line, project, and staff managers at all levels of responsibiltiy. These courses provide a means of orienting management personnel in Government and Company policies and procedures. The training courses cover basic requirements and theory. In addition, specific case histories documenting Company experience in implementing various policies and procedures are presented and discussed in an open forum.

3.4 Training and Motivation (Continued)

Subcontracting policy and experience have been key elements of the TRW management training courses in the past. This has included the specific challenges and opportunities associated with subcontracting with S/SDBCs.

In addition to internal courses, TRW line, project, and staff mangers aggressively seek out and participate in the learning opportunities provided through professional associations and symposia external to the Company.

TRW believes that this combination of internal and external training has been extremely instrumental in providing our managers with the specific professional knowledge and motivation which led to the solid record of achievement discussed in the introduction. We believe that our approach has been extremely effective. We intend to continue our program of personnel training and motivation as in the past, modifying and expanding as necessary to meet any changing Government requirements.

3.5 Assistance to Small and Small Disadvantaged Business Concerns

In a continuing effort to assist small, women-owned and small disadvantaged businesses under the provisions of DAR 7-104.14 (b), NASA-PR 1.707-3 (b), FPR 1-1.710.3 (b), FAR 52.219.9 (as applicable), and the implementing departmental regulations, TRW has traditionally performed the function of providing such firms assistance and advice and will continue to do so in the following areas:

- Engineering
- Finance
- Materiel
- Production
- Quality Assurance

3.6 Make or Buy Decisions

TRW procurement personnel will continue to follow the Procurement Policy on Make or Buy Programs which provides for review of each requirement early in the source determination process to assure a reasonable allocation of effort across the entire spectrum of total TRW acquisitions.

3.7 Counseling of Referrals

It is TRW's standard practice to interview all S/SDBCs upon their first visit. During this screening interview, TRW thoroughly explores the products or services offered by the business concerns for potential application within TRW. The individual concerns are then referred to the appropriate procurement group responsibile for the products or services for an in-depth interview. In this manner, the business concerns become known to the cognizant procurement personnel and available as potential sources from whom quotations can be solicited for future requirements. All referrals from the Department of Defense or the Small Business Adminstration are contacted and arrangements made for an interview with appropriate procurement personnel.

3.8 Goal Development Methods

When developing subcontracting goals, the applicable bill of material/equipment list is reviewed by the appropriate Buyers/Subcontract Specialists who subsequently advise the Plan preparer of specific supply and service items that can potentially be procured from sources identified as S/SDBCs. The Plan preparer then incorporates these supply and service items, along with associated S/SDBC sources, into the Subcontracting Plan for inclusion into the TRW negotiated contract.

4.0 RELATIONSHIP OF MASTER PLAN TO INDIVIDUAL SUBCONTRACTING PLANS

In accordance with DAR 7-104.14 (b), NASA-PR 1.707-3 (b), FPR 1-1.710-3 (b), and FAR 52.219.9 (as applicable) this Master Subcontracting Plan contains all the required elements except goals. As each individual subcontracting plan is submitted, TRW shall: (a) in the individual plan, incorporate this Master Plan by reference; (b) provide copies of the approved Master Plan and evidence of its approval to the Contracting Officer; (c) ensure that goals and any deviations from the Master Plan deemed necessary by the Contracting Officer to satisfy the requirements of the contract are set forth in the individual plan; and (d) where applicable, provide a description of the principal supply and service areas to be subcontracted, along with the names of S/SDBCs identified as potential participants in the contract. The formulae for allocating costs as they relate to goal performance are delineated in Attachment A.

Attachment A
Page 1 of 2

FORMULAE FOR ALLOCATING COSTS

A. Direct Procurement Goals

- The estimate for Small Business procurement is $\$(SB_D)$.*

$$\% \text{ Goal} = \frac{\$SB_D}{\$ \text{ Total Direct Procurement}}$$ (includes all types of procurement).

- The estimate for Small Disadvantaged Business Procurement is $\$(SDB_D)$.

$$\% \text{ Goal} = \frac{\$SDB_D}{\$ \text{ Total Direct Procurement}}$$ (includes all types of procurement).

B. Indirect Allocations

Case I - For projects that do contain direct procurement dollars.

Calculate allocation percentage by dividing - Total Direct Procurement dollars (unburdened) by the total estimated TRW commitments for CY 19XX ($** M) - Call this percentage X. This is the allocation percentage for your specific project.

- Small Business allocation:

  Multiply X by the estimated Indirect Small Business commitments for CY 19XX ($ ** M).

X $ ** x X = allocation of indirect expenses to small business.

- Small Disadvantaged Business Allocation

  Multiply X by the estimated indirect small disadvantaged business commitments for CY 19XX ($ ** M).

X $ ** M x X = allocation of indirect expenses to small disadvantaged business.

Add note: These indirect allocations are not additional costs to the program but merely an apportionment of committed and estimated overhead expenses for the year.

* Excludes Small Disadvantaged Business
** Obtain current figures from the S/SDBC Administrator

B. Indirect Allocations (Continued)

Case II - For projects that do not contain direct procurement dollars.

Calculate allocation percentage by dividing - Total Project Price (or value of change) by the estimated gross sales for TRW for CY 19XX ($** M). Call this percentage Y. This is the allocation percentage for your specific project.

o Small Business Allocation:

Multiply Y by the estimated Indirect Small Business commitments for CY 19XX ($ ** M).

x $ ** M x Y = allocation of indirect expenses to small business.

o Small Disadvantaged Business Allocation:

Multiply Y by the estimated indirect small disadvantaged business commitments for CY 19XX ($ ** M).

x $ ** M x Y = allocation of indirect expenses to small disadvantaged businesses.

DEPARTMENT OF THE AIR FORCE
DET 46, AF CONTRACT MGT DIV, AF PLANT REPRESENTATIVE OFC (AFSC)
TRW ELECTRONICS AND DEFENSE SECTOR, ONE SPACE PARK
REDONDO BEACH, CA 90278

REPLY TO ATTN OF: CD

29 December 1983

SUBJECT: Master Subcontracting Plan for 1984

TO: H. E. Cypert, Jr.
Small/Small Disadvantaged Business Liaison Officer
TRW Electronics and Defense Sector

1. Your master subcontracting plan dated 21 December 1983 is approved for a period of one year, effective 1 January 1984. The plan is to be used by the following TRW Organizations:

(a) Defense Systems Group, excluding ESL, Inc. and Ground Electronics Integration Organization (GEIO)

(b) Electronic Systems Group, excluding TRW Microwave, Inc. and TRW Electronic Products, Inc.

(c) Space and Technology Group

(d) Operations and Support Group

2. This approved plan will be accepted by procuring contracting officers (PCO) unless a PCO determines that the plan (because of unusual circumstance) would not afford small business and small disadvantaged business concerns maximum practicable opportunity to participate in the performance of a contract; in which case a special plan will be required.

3. This approval of your master sucontracting plan:

(a) shall automatically terminate upon the expiration date specified above unless the expiration dated is extended;

(b) shall automatically terminate when any significant change occurs in your small and small disadvantaged business program unless the change has received my approval; and

4. This approval letter should be attached to each proposal which contains a master plan where the proposed contract or subcontract is subject to the Small Business and Investment Act of 1958, as amended by Public Law 95-507.

John R. Zawoysky
JOHN R. ZAWOYSKY, Lt Col, USAF
Deputy Commander

A Guide to Doing Business with TRW Electronics & Defense Sector

TRW

To Our Suppliers

It is a pleasure to welcome you to the Electronics and Defense Sector of TRW Inc. and its procurement organization.

We at TRW have long recognized the vital contribution that our suppliers have made to the growth and success of our company. For this reason, we maintain a consistently high level of interest in the products and services that are being offered in the marketplace. We, therefore, wish to provide you as either a prospective supplier or as one of our established suppliers, with ample opportunity to acquaint our procurement personnel with your company's products and capabilities. This booklet has been prepared to acquaint you with our procurement policies and procedures and to assist you in locating the people responsible for the procurement of your particular commodity or service.

Thank you for your interest in contacting us. We hope that it will result in a mutually beneficial relationship.

H.E. Cypert J

H.E. Cypert, Jr.
Manager, Materiel Operations
TRW Operations & Support Group

Your First Visit

TRW Electronics & Defense sector extends a prompt and courteous reception to all suppliers.

On your first visit, we recommend you see the Supplier Information Center Coordinator. At this time you will be asked for information concerning the products or services offered by your company. Any questions you may have will also be answered. Upon completion of the interview the Coordinator will furnish the phone number of the proper procurement personnel to be contacted for an appointment.

Visitor Policy

After the initial contact is completed any subsequent visits are arranged directly with the buyer/subcontract specialist; however, these visits will depend upon the applicability of the visitor's particular product or service to our needs.

Necessary supplier contact with other functions within the company are arranged by the appropriate procurement organization.

Supplier Qualifications

On your first visit, you will be asked to complete a basic capability information form. Be sure that you tell us whether you qualify for any of the recognized preferences, such as:

☐ Small Business Concern
☐ Small Disadvantaged Business Conern
☐ Women's Business Enterprise
☐ Facility in Eligible Labor Surplus Area

During your interview our procurement personnel will be able to tell whether we have an immediate or potential future need for items you sell. If your product line is one that is rarely or never used by us, you will also be advised accordingly.

Visits To Other TRW Functions

The buyer/subcontract specialist may ask you to meet with some of our Engineering or Production people — this will often require a second interview to be set up at a future date. Our buyer/subcontract specialist should be able to tell you the specific items of interest to TRW and the kinds of questions that may be asked.

Requests For Proposal/Quotation

It is not likely that we will place an order with your firm during your first visit with us. However, if you have a product or service that we normally procure, we will do our best to see that you receive consideration from us the next time your product is required. Any request for proposal/quotation you receive from us will be just that, and in no way should it be construed as a promise that an order will be placed. We try to obtain the best competitive price consistent with quality and delivery, but we also try to assure that local suppliers and Government specified preferred sources get a fair share of our business.

Supplier Surveys

If your company makes or sells a product that will be used in TRW's manufacturing process, or if the item is considered project critical, we may wish to survey your facility to evaluate your Quality Control and Production and to meet the people in your firm with whom we may be working. You will be informed in advance if we will apply any military or NASA specifications to our evaluation of your facility.

A survey of this sort has two purposes:

1. To give us a better idea of what you do and how it is done.
2. To give your people a better idea of what will be required if you should receive an order from TRW.

Such a survey will be planned and scheduled ahead of time in order that all parties can be well prepared.

If You Have Any Problems

We try to assure that every company desiring to sell to TRW receives a fair hearing. If you should for some reason feel that we have given insufficient consideration to your company, please contact the Small Business Administrator at 213.536.1785.

Small Business Liaison Office

The TRW Electronics & Defense sector Small Business Concern/Small Disadvantaged Business Concern/Women's Business Enterprise/Labor Surplus Area Programs encourage such firms to paticipate in our procurement activities. Small Business Concerns/Small Disadvantaged Business Concerns/Women's Business Enterprises with the desire and ability to meet our demanding quality, delivery and competitive pricing requirements should contact us for possible business opportunities. Representatives calling on us for the first time, or anyone who might require assistance or information is requested to contact our Supplier Information Center Coordinator at 213.535.0207.

Office Locations

Our major place of business is in Redondo Beach, California, at the intersection of Aviation and Compton Boulevards. Our facility of about 60 buildings in the Los Angeles airport area uses the same mailing address, One Space Park, Redondo Beach, California 90278. Envelopes containing invoices should be addressed to TRW Operations & Support Group, Supplier Disbursements, P.O. Box 922, El Segundo, California 90245. Please refer to the map on the back cover of this booklet for specific building locations. Be sure to show the addressee's building and room number (S/1435 stands for Building S, Room 1435) on the envelope; otherwise our mail services function will have a difficult time routing the letter to the proper recipient.

TRW Products

TRW Electronics & Defense is the high technology sector of TRW Inc. Typical products include: communication and scientific satellites; satellite subsystems, components and parts; communications control systems, information processing systems and software; missile systems engineering, test, support and software; propulsion systems; laser systems; optical systems; antenna systems; transponders; and high speed digital processors. The nature of our business is such that we require a diverse range of procured products and services; however we have no production-rate manufacturing activity. As a result we seldom require large quantities of any specific item.

Visiting Hours

8:30 AM - 12:00 Noon and 1:00 PM - 4:00 PM, Monday through Friday. However, many of our employees are on "Flex-Time" so it would be advisable to call ahead for any appointment.

Telephone Calls

All calls are direct dial. At our Space Park facility calls originating outside TRW are made by dialing all seven digits of a number. Calls between stations at Space Park are made by dialing the last five digits of the number. For example, to reach Supplier Information Center from the outside, dial 535.0207. To reach Supplier Information Center from within TRW dial 50207. TRW has a number of facilities located throughout the Los Angeles area which can be reached by dialing all seven digits of a number.

Organization

TRW Electronics & Defense sector is one of three operating sectors of TRW Inc. Electronics & Defense consists of three Product Groups: Defense Systems Group, Electronic Systems Group, and Space & Technology Group; each having a subcontracting activity within it. The Product Groups are supported by the Operations & Support Group, which includes a procurement function entitled Materiel Operations. The Materiel Operations encompasses the following procurement groups: ADPE and Telecommunications Procurement, General Procurement, Standard Stock and Support Procurement, and Hi-Reliability Procurement. Therefore, suppliers who handle a variety of sales lines may find interested buyers in more than one procurement area.

Conflict of Interest

In the interest of maintaining fair and impartial business relationships, we have adhered to a long-established policy which prohibits the acceptance of gifts and gratuities by our employees at any time. Your cooperation in supporting this important policy is greatly appreciated.

Former Employees As Sales Representatives

Former employees of TRW will not be permitted to call on the Company in a sales capacity for a period of two years after leaving the Company.

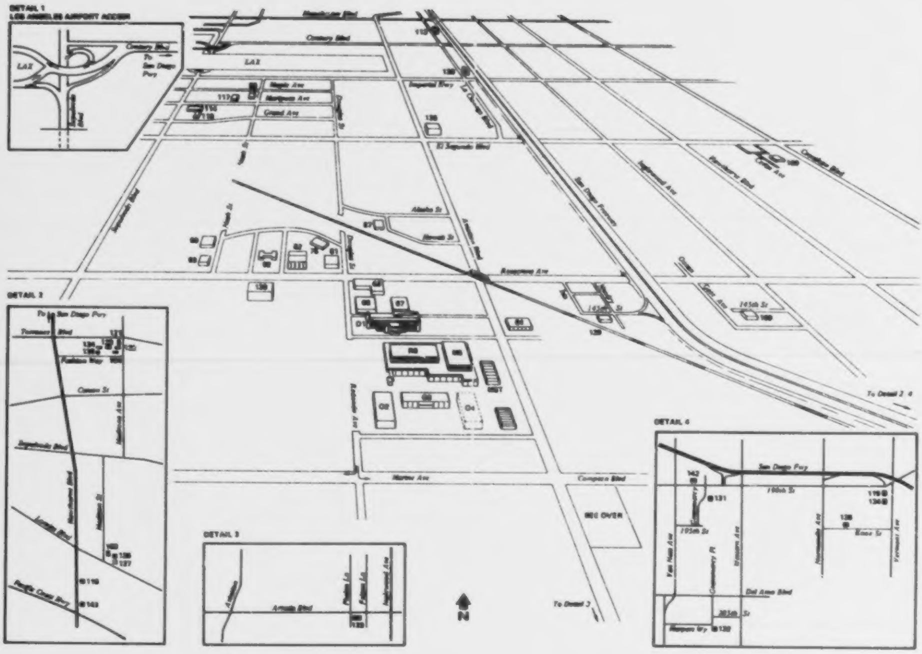
Security

We are participating in a number of classified projects and government security regulations are observed throughout the company.

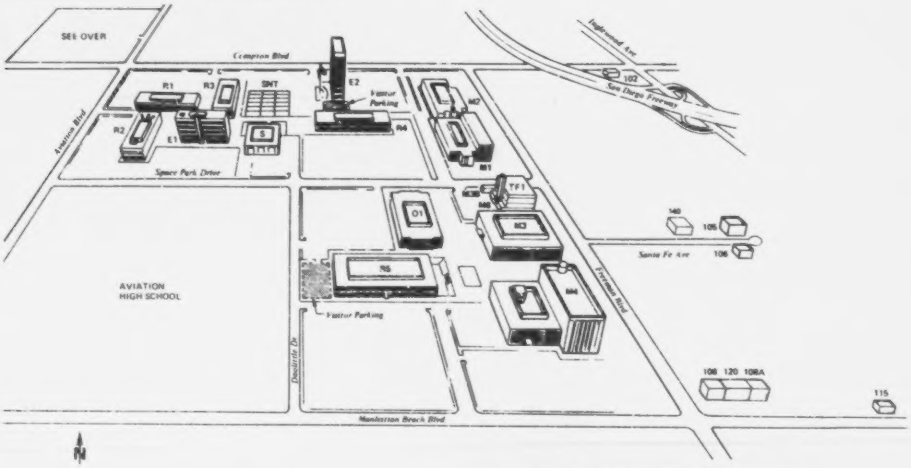
For your protection, and ours, we will appreciate your cooperation in following two simple rules during your visit:

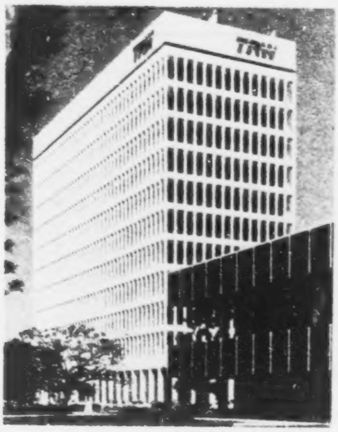
1. You may not discuss, handle, or observe classified matter unless you have an active clearance at the required security level on file with our Security Office.
2. You must be personally escorted at all times while inside the buildings during your visit. We will provide the necessary escort.

TRW South Bay Locations


DETAIL 1
LOS ANGELES AIRPORT ACCESS
LAX
Century Blvd
To San Diego Fwy
Century Blvd
LAX
Imperial Hwy
Grand Ave
El Segundo Blvd
Alaska St
Rosecrans Ave
Marine Ave
Compton Blvd
SEE OVER
DETAIL 2
To San Diego Fwy
Torrance Blvd
Fashion Way
Carson St
Sepulveda Blvd
Hawthorne Blvd
Lomita Blvd
Pacific Coast Hwy
DETAIL 3
Artesia Blvd
DETAIL 4
San Diego Fwy
190th St
195th St
Normandie Ave
Vermont Ave
Del Amo Blvd
Van Ness Ave
Western Ave
Crenshaw Blvd
Inglewood Ave
San Diego Freeway
145th St
To Detail 2 4
To Detail 3
N

TRW Space Park, Redondo Beach


SEE OVER
Compton Blvd
Inglewood Ave
102
San Diego Freeway
R1
R3
SNT
E2
Visitor Parking
M2
Aviation Blvd
R2
E1
S
R4
M1
Space Park Drive
TF1
O1
M3
140
105
Santa Fe Ave
106
R5
AVIATION HIGH SCHOOL
M4
Freeman Blvd
Visitor Parking
Doolittle Dr
108
120
108A
115
Manhattan Beach Blvd
N



TRW

A Company Called TRW

TRW Inc.
Electronics &
Defense Sector
One Space Park
Redondo Beach, CA 90278

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Printed in USA

Mr. MITCHELL. Mr. Shea.

TESTIMONY OF CORNELIUS J. SHEA, PROCUREMENT MANAGER, COMMUNICATIONS SYSTEMS DIVISION, GTE GOVERNMENT SYSTEMS CORP., ACCOMPANIED BY ALLEN R. FRISCHKORN, JR., ASSISTANT VICE PRESIDENT, GOVERNMENT RELATIONS, AND JAMES McMAHON, JR., ASSISTANT GENERAL COUNSEL

Mr. SHEA. Good morning, Mr. Chairman and members of the subcommittee, ladies and gentlemen.

My name, as you have indicated, is Cornelius J. Shea. I am the procurement manager of the Communications Systems Division of GTE Government Systems Corp., based in Needham, MA. I am accompanied by Mr. McMahon and Mr. Frischkorn over to my left.

We have submitted a written statement for the record. I will try to summarize the major points in that statement.

Of all of GTE Corp.'s business, 95 percent that is subject to section 211 of Public Law 95-507 is carried out by its wholly owned subsidiary GTE Government Systems Corp., which is a supplier of electronic systems to the Government.

I am appearing today to present testimony to the committee on behalf of GTE Government Systems on the implementation of the small and small disadvantaged business subcontracting program. I will speak primarily about the program at CSD.

In general, GTE Government Systems' policy is to comply with the small business program at all of its operating divisions where such program is applicable. The other operating divisions of GTE Government Systems in addition to CSD are the Strategic Systems Division, at Westborough, MA; the western division, in Mountain View, CA, and Electronic Systems and Services in Needham, MA.

GTE Government Systems' procurement policies and procedures require small and small disadvantaged businesses to be given maximum practical opportunities to participate in the performance of Government and non-Government contracts, consistent with their efficient performance. The program that is implemented at CSD is, in general terms, implemented and followed in a similar manner at the other divisions of Government Systems. It is the responsibility of the general manager of each operating division to provide the resources and support necessary to assure compliance with the provisions of Public Law 95-507.

CSD's compliance program focuses on four key areas: First, the development of the plan which encompasses analysis of our requirements to identify potential material and services that can be subcontracted to small and small disadvantaged businesses. Second, the acquisition personnel are trained to be aware of the requirements of the law, the implementation of the subcontract program, including as many of the vendor source lists that we can accumulate, the reporting requirements, and our special assistance program. Third, the procurement personnel pursue and identify small and small disadvantaged business concerns. Once identified, procurement personnel assist these business concerns by providing advance knowledge of our requirements, that is, quantity, delivery schedule, specifications, and qualification requirements. Finally, a data system has been set up at CSD to process the information and reporting requirements of the plans.

There is an ongoing effort by the Government Systems Operation Division to identify small and small disadvantaged business concerns to meet our contract needs. CSD representatives have attended numerous fairs and congressionally-sponsored small business conferences in Massachusetts, Connecticut, Rhode Island, New Hampshire, Vermont, Maine, and New York. The western division attends similar events on the west coast. The small business liaison officer usually attends these conferences accompanied by one or two buyers, representatives of engineering or manufacturing personnel. The buyer personnel attending these conferences are rotated to give the broadest exposure to a maximum number of people.

GTE Government Systems values highly the good performance of its many small and small disadvantaged business concerns. Since 1981 to 1983, our annual total dollar commitments to small business have increased 46.8 percent, from $80 million to $117 million, and have increased 67.7 percent, from $1.7 million to $2.8 million to small disadvantaged businesses. We are proud of our overall subcontracting program, and especially of the results that it has achieved. Nevertheless, GTE Government Systems is constantly striving to improve our performance.

GTE Government Systems fully supports the Government's small and small disadvantaged business program. It has made the goals of these programs an important part of its policies and objectives in all of its operating divisions and has, more importantly, actively implemented these objectives in its day-to-day procurement practices to achieve real benefits for the business concerns of this country that Public Law 95-507 has sought to assist.

GTE Government Systems' commitment to the goal of Public Law 95-507 are borne out by the fact that, in 1981, CSD was presented the Defense Contract Administration Services Boston region award for contract excellence in assisting small, disadvantaged businesses. The award stated, and I quote: "In recognition of sustained superior performance and contributing to the development and growth of small disadvantaged businesses." It was signed by Gerald J. Post, Lieutenant General, U.S. Air Force, Director, Defense Logistics Agency.

In 1983, the western division received an outstanding rating for its small and small disadvantaged business program from the Defense Logistics Agency. In its letter of commendation to GTE, the agency stated that, and I quote: "The sincere effort of management, as well as personnel, to comply with the spirit of Public Law 95-507 is evident throughout Sylvania systems group."

For your information, sir, we have gone through a name change. We are now GTE Government Systems.

In closing, I would like to thank the subcommittee for its invitation to appear here today and to present the small and small disadvantaged business program as it is carried out at GTE Government Systems. I would be happy to answer any questions you may have, sir.

Mr. MITCHELL. Thank you very much for your testimony.

[Mr. Shea's prepared statement with attachments follows:]

PREPARED STATEMENT OF CORNELIUS J. SHEA, PROCUREMENT MANAGER, COMMUNICATIONS SYSTEMS DIVISION, GTE GOVERNMENT SYSTEMS CORP.

My name is Cornelius J. Shea, I am the Procurement Manager for the Communications Systems Division of GTE Government Systems Corporation located in Needham, Massachusetts.

Ninety-five percent of all of GTE Corporation's business that is subject to Section 211 of Public Law 95-507 is carried out by its wholly owned subsidiary, GTE Government Systems Corporation, which is a supplier of electronic systems to the Government.

I am appearing today to present testimony to the Committee on behalf of GTE Government Systems on the implementation of the small and small disadvantaged business subcontracting program. Although I will speak primarily about the program at CSD, in general GTE Government Systems policy is to comply with the small business program at all of its operating divisions where such program is applicable. The program that is implemented at CSD is in general terms followed and implemented in a similar manner at the other divisions of Government Systems. These operating divisions of GTE Government Systems, in addition to CSD,are the following:

- Strategic Systems Divisions ("SSD"), Westborough, Mass.

- Western Division ("West"), Mountain View, California

- Electronic Systems and Services ("ESS"), Needham, Mass.

The following statements are in response to the points raised in the Subcommittee's letter of invitation to GTE of March 20, 1984:

A. DESCRIPTION OF GTE GOVERNMENT SYSTEMS SUBCONTRACTING PROGRAM

Under 95-507 when a contract or contract amendment valued over $500,000 is signed by CSD as contractor to the Government or as subcontractor to another firm holding a Government contract we must analyze the materials requirments of the contract in order to develop a plan that identifies the material and services that have the potential to be purchased from small and small disadvantaged businesses. The percentages allocable to small and small disadvantaged businesses are determined from the total amount of dollars estimated to be awarded for material and services. A data system has been set up at CSD to process the information requirements of the plans. Once established, a plan is submitted to the cognizant contracting officer for his review and approval, and then incorporated into the contract. Subsequently, Form 294 is completed and submitted setting forth the results achieved against the specific goals. Form 295 is filed quarterly setting forth cumulative data for CSD as required.

Our procurement policies and procedures require that small and small disadvantaged businesses be given maximum practical opportunities to participate in the performance of Government and non-Government contracts. During the buying process, each buyer, when preparing Requests for Quotation, is required to conduct a review of small disadvantaged business vendor listings to identify small disadvantaged vendors capable of performing the work to be subcontracted and then the buyer will solicit competitive bids accordingly. Flow-down requirements for subcontracting plans for small business and small disadvantaged business concerns will be communicated to any large business concerns being given the opportunity to submit a proposal.

In order to facilitate the participation of small and small disadvantaged businesses special assistance is provided by way of arranging solicitation times for the review of specifications, bid quantities and delivery schedules. Each buyer is required to document the results of these solicitations for each award. The results of this activity are entered into and summarized by our data system. Periodic reviews of these results are conducted by procurement management in order to recognize outstanding achievement and also to determine if corrective action is required. The potential of utilizing small and small disadvantaged business concerns is considered in all "make or buy" decisions.

A small business liaison officer has been designated reporting directly to the Procurement Manager. His duties are to administer each subcontracting plan, monitor the procurement department efforts, seek additional small and small disadvantaged business sourcing information, afford opportunities to exchange information, foster communication, train acquisition personnel, maintain appropriate records and expand activity in the small and small disadvantaged business areas.

In addition, GTE submits periodic reports and cooperates on any studies or surveys required by the customer or the Small Business Administration to determine the extent of compliance. Management interest and involvement in support of the Small Disadvantaged Business Program has been and will continue to be extensive and supportive. The Procurement Manager, on a semi-annual basis, is required to make a presentation to CSD's General Manager and his staff, reporting on results achieved. This presentation affords the opportunity to highlight significant achievements to management and to identify and discuss problems and solicit recommendations and support.

In our continuing efforts to identify small and small disadvantaged business concerns CSD representatives have attended numerous fairs and Congressionally sponsored Small Business Conferences in Massachusetts, Connecticut, Rhode Island, New Hampshire, Vermont, Maine and New York. The small business liaison officer usually attends all of these conferences accompanied by our buyer, engineering and manufacturing personnel. Buyer personnel attending these conferences are rotated on a regular basis so that the broadest exposure possible to these programs is made available to the personnel in this department. These conferences are also attended by the representatives of the other Government Systems divisions located in Massachusetts. The Western Division participates in similar meetings in California.

B. TOTAL DOLLAR VALUE OF ALL FEDERAL PRIME CONTRACTS RECEIVED BY GTE GOVERNMENT SYSTEMS AND THE DOLLAR VALUE AND NUMBER OF SUBCONTRACTS AWARDED TO SMALL AND SMALL DISADVANTAGED BUSINESSES

GTE Government Systems

a. Value of prime contract awards:

1981 $428,101,648

1982 $626,072,617

1983 $600,621,572

b. Value and number of small and small disadvantaged business contracts with percentage of all subcontract awards:

	Value	Number	% in Value	% in Nos.
Small Business (not including SDBs)				
1981	$78,584,476	27,885	44.9%	66.7%

	Value	Number	% in Value	% in Nos.
1982	$101,102,614	24,665	40.7%	53.8%
1983	$115,022,494	31,404	44.9%	61%
Small Disadvantaged Business				
1981	$1,723,271	565	0.98%	1.35%
1982	$2,192,213	504	0.88%	1.10%
1983	$2,890,204	732	1.12%	1.42%

The breakdown of this information for the applicable divisions of GTE Government Systems is set forth in Annex A attached hereto.

C. THE EXTENT TO WHICH SMALL AND SMALL DISADVANTAGED BUSINESS PROGRAM ACCOMPLISHMENTS ARE TAKEN INTO ACCOUNT IN EVALUATING THE PERFORMANCE OF PURCHASING AND SUBCONTRACT PERSONNEL

GTE Government Systems policy is to make the development and utilization of small and small disadvantaged businesses an assigned objective for all buyer personnel. The automatic procurement data system indicates the number and amount of awards to small and small disadvantaged businesses by acquisition personnel on a monthly and cumulative basis for the year. Merit salary increases for acquisition personnel are partially based on the percentage of business that is awarded to small and small disadvantaged businesses by the employee against pre-established percentage goals. Similar programs to monitor employee participation in the small business effort have been instituted at, and are carried out by, the other divisions of Government Systems.

D. TRAINING PROVIDED TO OUR PERSONNEL FOR THE IMPLEMENTATION OF OUR SUBCONTRACTING PROGRAM

In addition to on-the-job training at Needham, CSD purchasing and subcontract personnel regularly attend seminars conducted by the Purchasing Managers Association of Boston on the subject of small and small disadvantaged business subcontracting. We also participate in meetings held by Government officials, such as Senator Tsongas and Representatives Frank and Mavroules for the purpose of instructing small and small disadvantaged businesses on doing business with the Government and prime contractors. A GTE Government Systems represenative was, for example, the guest speaker at a Small Business Conference sponsored by Senator Hayakawa at the Ames Research Center in California in October of 1982. As a prime contractor we attend these meetings so that representatives of these small businesses can have the opportunity to speak with us about the small business program at CSD as well as at our other divisions.

E. CHANGES OUR COMPANY HAS MADE IN ITS SUBCONTRACTING PROGRAM SINCE THE PASSAGE OF P.L. 95-507

Since the passage of P.L. 95-507 CSD has reorganized its procurement activities procedurally, revised its training programs, changed its methods of record keeping, involved higher management and other functional departments in the program, expanded source lists to include small disadvantaged business concerns and appointed a Small Business Coordinator to oversee compliance with the law. Moreover, we have instituted special computer programs to assist us in the implementation and monitoring of our program.

F. GENERAL REMARKS

GTE Government Systems Corporation since its founding over 28 years ago as the Sylvania Systems Group (the name was changed April 1, 1984 to GTE Government Systems Corporation) has been committed to cooperating with Government sponsored programs and has supported the subcontracting program to small and small disadvantaged businesses in implementation of this policy.

We feel that our record reflects the strong support that GTE has lent to the subcontracting program. From 1976 to 1983 CSD dollar awards to small disadvantaged business concerns have increased by 3,387%. In 1981 CSD was presented the Defense Contract Administration Services, Boston Region, award for contractor excellence in assisting small disadvantaged businesses. The award stated "In Recognition of Sustained Superior Performance in Contributing to the Development and Growth of Small Disadvantaged Businesses" and was signed by Gerald J. Post, Lt. General, USAF, Director, Defense Logistics Agency. In 1983 the Western Division received an outstanding rating for its small and small disadvantaged business program from the Defense Logistics Agency. In its letter of commendation to GTE the Agency stated that "The sincere effort of management, as well as personnel, to comply with the spirit of PL 95-507 is evident throughout Sylvania Systems Group." Copies of the award and letter of commendation are attached to this statement.

CONCLUSION

GTE Government Systems fully supports the Government's small and small disadvantaged business programs. It has made the goals of these programs an important part of its policies and objectives at all of its operating divisions and has, more importantly, actively implemented these objectives in its day to day procurement practices to achieve real benefits for the business concerns of this country that Public Law 95-507 has sought to assist.

In closing, we would like to thank the Subcommittee for its invitation to appear today and to present the small and small disadvantaged business program as it is carried out at GTE Government Systems.

ANNEX A

The following is the break down by operating divisions of the GTE Government Systems' figures set forth in Section B of the attached Statement:

1. Communications Systems Division:

a. Value of total prime contract awards (DOD only)

1981 $121,000,000

1982 $216,000,000

1983 $165,000,000

b. Value and number of small and small disadvantaged business contracts with percentage of all subcontract awards:

	Value	Number	% in Value	% in Nos.
SB (not including SDBs)				
1981	$36,655,280	15,426	46.2%	67.8%
1982	$38,306,408	9,775	34.4%	46%
1983	$40,725,454	15,714	40.3%	61%
SDB				
1981	$804,015	283	1%	1.2%
1982	$1,112,823	197	1%	0.9%
1983	$1,505,257	378	1.4%	1.3%

2.Western Division (FY Oct. 1 to Sept. 30)

a. Value of total prime contract awards:

1981 $230,450,000

1982 $313,933,000

1983 $324,728,000

b. Value and number of small and small disadvantaged business contracts with percentage of all subcontract awards:

	Value	Number	% in Value	% in Nos.
SB (not including SDBs)				
1981	$35,871,036	11,068	50.9%	66.27%
1982	$51,294,629	13,019	47.1%	61.24%
1983	$51,140,657	13,542	45.8%	60.33%
SDB				
1981	$762,639	274	1%	1.48%
1982	$948,959	281	0.8%	1.32%
1983	$1,266,717	315	1.1%	1.4%

3. Strategic Systems Division (FY Oct. 1 to Sept. 30)

a. Value of total prime contract awards:

1981 $76,000,000

1982 $95,000,000

1983 $110,000,000

b. Value and number of small and small disadvantaged business contracts with percentage of all subcontract awards:

	Value	Number	% in Value	%in Nos.
SB (not including SDBs)				
1981	$4,146,745	370	18.7%	56.3%
1982	$9,382,303	830	37.3%	60.5%
1983	$18,791,465	1,026	49.2%	62.2%
SDB				
1981	$153,255	5	0.6%	0.4%
1982	$117,697	6	0.4%	0.4%
1983	$108,535	12	0.28%	0.7%

4. Electronic Systems & Services Division (FY Oct. 1 to Sept. 30, with exception that FY 1981 does not include data for the period 1 Oct. 80 through 31 Dec. 80)

a. Value of total prime contract awards:

1981	$651,648
1982	$1,139,617
1983	$893,572

b. Value and number of small and small disadvantaged business contracts with percentage of all subcontract awards:

(Note: ESS is mainly a field service organization tasked by other divisions of GTE Government Systems. The below figures reflect the value of all the purchase orders and subcontracts committed by ESS - from prime contracts and other sources - for the years in question.)

	Value	Number	% in Value	% in Nos.
SB (not including SDBs)				
1981	$1,911,415	1,021	68.8%	61.5%
1982	$2,119,174	1,041	72.5%	60.3%
1983	$4,364,918	1,122	88.8%	65.1%
SDB				
1981	$3,362	3	0.12%	.018%
1982	$12,734	20	0.43%	1.15%
1983	$9,677	27	0.19%	1.56%

DEFENSE LOGISTICS AGENCY
DEFENSE CONTRACT ADMINISTRATION SERVICES MANAGEMENT AREA, SAN FRANCISCO
1250 BAYHILL DRIVE
SAN BRUNO, CALIFORNIA 94066

DCRL-GFBS (Fosbery/(415)876-9523/car) 21 Nov 83

Mr. Clark Fiester
GTE Communications Products Corporation
Sylvania Systems Group - Western Division
100 Ferguson Drive
Mountain View, CA 94043

Dear Mr. Fiester:

A Small Business, Small Disadvantaged Business, Labor Surplus Area and Women-Owned Business Subcontracting Program Review was held on 7 November 1983, for the reporting period 1 January 1983 through 30 September 1983.

We found your programs in compliance with contractual requirements. Your overall rating is OUTSTANDING.

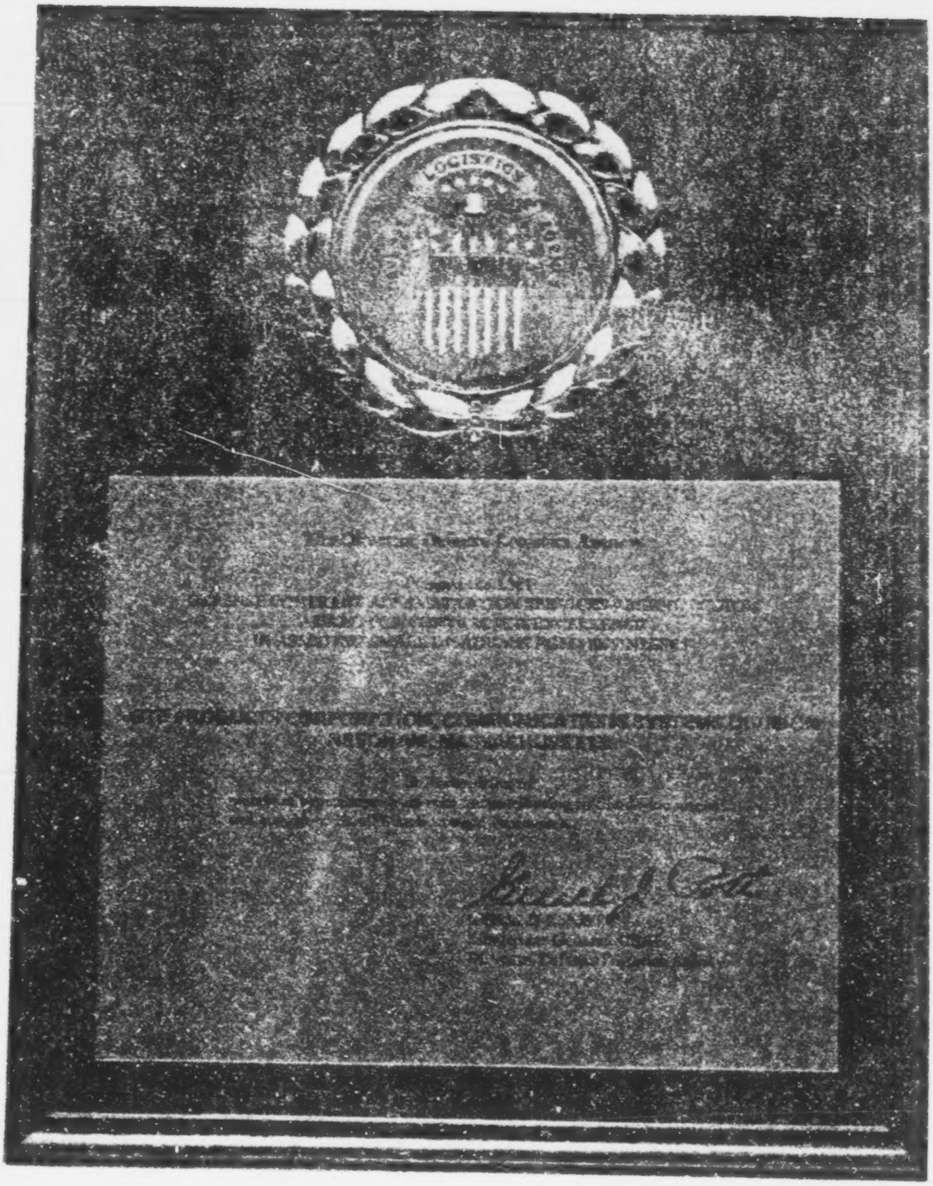
The sincere effort of management, as well as personnel, to comply with the spirit of PL 95-507 is evident throughout Sylvania Systems Group.

Thank you for your support of the Department of Defense Subcontracting Programs.

Sincerely,

Robert Lane
ROBERT LANE
Small and Disadvantaged Business
Utilization Specialist

cc:
Mr. Carl Lindner, Sylvania
Mrs. Dorothy Havnen, ACO
Mr. Lester Quitney, SBA



Mr. **Mitchell**. I thank all three of you for taking time to be away from the shop. I always say you lose money by coming here to testify if you have to be away from your business.

Let me just make one or two comments before I ask some questions.

Obviously, we are focusing only on Federal contracts, compliance with Public Law 95-507. I appreciate the information about the other activities you mentioned, but we are focusing in on that. I think it is perhaps a propitious time for me to lay out to you why I am pushing so hard in this area.

In my opinion, this country will never reach its maximum potential until you secure the economic empowerment of many of the minorities in this country. You sit around and you see various programs, domestic and social programs are decimated and eliminated, but you have got to put something in their place. It seems to me that the focus must be on the development of a strong and effective minority entrepreneurial class in this Nation. Without that, we aren't going to make it. That is why I push for implementation of Public Law 95-507 and that is why I push very hard. That is why some people in the private sector don't like me. I wish you all would love me, but your lack of love for me will not deter me from my objective, and that is a strong minority entrepreneur class in this Nation. I think it is good for the country.

You can't have people receiving various forms of public assistance, various forms of it, forever. We aren't going to let people starve in this country or be ill-housed. Therefore, the alternative, it seems to me, is to develop a strong entrepreneurial class.

Let me just say in terms of the matter of a goal being set for an entire industry, or an entire corporation, or an entire segment, again I am not locked into concrete positions on that, but there are many, many dangers to that. If you set a goal of, let's say, 12-percent small disadvantaged business participation, and you award one contract to one firm, you might reach that goal. That is not helping to develop an entrepreneurial class. I have some very strong reservations about it.

Mr. Dean, as I understand it, the percentage of your corporation's activity in terms of Government contracts are very small; is that correct?

Mr. **Dean**. Approximately 5 percent.

Mr. **Mitchell**. And you just recently got started in that?

Mr. **Dean**. We have been doing that kind of business for several years. We have been submitting subcontracting plans for several years. Our first plan requirement was July 1981.

Mr. **Mitchell**. OK. As I understand it, since you have been in that kind of business, you have not been able to find any small disadvantaged businesses to participate; is that correct?

Mr. **Dean**. No, that is not correct.

Mr. **Mitchell**. All right.

Mr. **Dean**. Excuse me. Our statement did indicate that we had just set up a program recently, a formalized program. We submitted it and it has been approved. So, consequently, the numbers that I have given you are numbers based upon what we physically could get our hands on today since we do not have a prior formalized program.

Our minority small disadvantaged business percentage, I think, is somewhere around 5 percent of our total Government dollars. It is approximately 5 percent based on the numbers that I was able to put together within the last 2 months.

Mr. **Mitchell**. Thank you.

Unless I misread your original statement, it did not contain any data on small disadvantaged business subcontracting.

Mr. **Dean**. That is correct. It is included in the total.

Mr. **Mitchell**. That was not broken out in any fashion.

Mr. **Dean**. That is correct.

Mr. **Mitchell**. You are now advising me that it is about 5 percent.

Mr. **Dean**. That is correct.

Mr. **Mitchell**. All right.

Let me just cite what TRW has stated in terms of some contracts. I will give this sheet to you. It might be advantageous for you.

I have one, two, three, four, five contracts ranging in dollar amounts from $21 million to $223 million. In terms of small business participation in each of these contracts, it is generally very low, except for one contract which is at 14 percent. In terms of the five contracts for your small and disadvantaged, contract No. 1, zero percent; contract No. 2, zero percent; contract No. 3—that is a contract in the amount of $110 million—0.2 of 1 percent; contract No. 4—how do you read this 0.005? What does that average out to you? That gets so small I can't deal with it. Your biggest contract of $233 million plus, it is 0.078 percent.

Are you familiar with any of those contracts?

Mr. **Cypert**. Not specifically those totals. But let me maybe make a point of clarification.

When we set up our reporting mechanism, which is on the 294 forms, the block that is indicated on there only shows the amount of direct dollars on that contract, direct dollars being those dollars expended that physically go into the charging of that contract.

However, when we write our subcontracting plan, we include our allocation of all the supplies and services and other factors that go into the total day-to-day process that that program has. I pulled out one before I left. Let's take a look at it. It is one of our biggest one. It is a high-technology contract, and it had within the framework of the 194 form—I think it is one of those that had that 0.005. But, in fact, when you look at the exceeding of goals which is the actual to date and you look at the allocation of all the supplies and services, we are standing at just about 4 percent that program.

Our problem internally was that if we let a program manager believe that they were going to get all the allocation of the indirect, there wouldn't be enough incentive for them to continue to push hard on the direct portion of it. So we start looking at the bill of material on the opportunities and development, and then we look at the total allocation.

Now it also depends on the maturity. Often when you start with the program, we have a big design content. We don't have the maker buy defined at that point, nor do we have the bill of material whole and complete. So these goals continue to evolve as we more fully understand what the opportunities are in the sense of what will be the subcontracting opportunity off the bill of material.

But, generally, if you look at our total, again our total has been running in the 5 and 6 percent across the board. All of these programs that utilize floor space, that have hundreds of people on them, have a percentage when they look at all of the rest of the dollars. To the businessmen on the outside, they don't really care whether it is a dollar of direct or a dollar of indirect, they are all going to run in the 2-, 3-, or 4-percent range.

Mr. MITCHELL. Except that, looking at the law—and you are familiar with it—it states that each of these contracts, in fact, no contracts will be signed off on unless there is an effective plan for the utilization of small business and small disadvantaged business.

Mr. CYPERT. Yes; within our plan, it shows all of that.

Mr. MITCHELL. No; of course, these figures we took from your plans, as you know, the data that you have there.

But my point is that no matter what side benefits accrue, this is not really compliance with the law. When a contract is signed off and you get some infinitesimal percentage like that, you are adding another dimension to the law, aren't you?

Mr. CYPERT. Within our plan, we allocate for all the dollars to go to that program, and that is within the plan. On the 294 form, it is only summarizing the direct dollars, but within the plan, it clearly shows total dollars that are allocated to that program.

Mr. MITCHELL. I am primarily interested in the direct dollars. That is where my concern is. Are these small firms getting their share of contracts to assist them in building themselves into more viable entities. Just based on those contracts, it doesn't appear that that is true.

The same thing is true, Mr. Shea, and I will use this sheet on five of your contracts. These are not really small contracts.

Let me come down to the small and disadvantaged business participation in each of these five contracts you are dealing with: 1 percent in 0, one-half of 1 percent in another, 0.22 in another, right down the line—0.5 percent and 0.5 percent. How do you explain this?

Mr. SHEA. Well, I don't recognize——

Mr. MITCHELL. These contracts, OK.

Mr. SHEA [continuing]. These specific contracts. I would be happy to get back to you with some sort of specific explanation on each one of them.

But, in general, what does happen is that we look at the opportunities for the subcontracting dollars and the, if you will, qualified suppliers who are available to us, and those who are not qualified we attempt to get the small, disadvantaged sources qualified. To that extent, we try to put down the goals that we feel are going to be achieved in some fashion, whether or not it be in direct dollars, as this gentleman has indicated, or to the direct charges to these contracts.

We are well aware of the requirements of the law. To that extent, we certainly try to meet the intent of the law.

Mr. MITCHELL. I am not denigrating your intent. I am just saying that the end product, in my opinion, is not very meaningful to small and disadvantaged businesses. When you are dealing with 1 percent or 0.5 of 1 percent, that really is just not meaningful.

Mr. Shea, on page 1 of your statement that was submitted in its entirety for the record, you say it is GTE's policy to comply with small business set-aside programs. Do you set aside a certain number of your subcontracts for exclusive competition for small businesses?

Mr. SHEA. No, sir, we do not.

Mr. MITCHELL. Then why do you refer to this as a set-aside program?

Mr. SHEA. I would have to say it's a typographical error in the document.

Mr. MITCHELL. Because it really is not a set-aside at all.

Mr. SHEA. That is correct. It is not a set-aside.

Mr. MITCHELL. There is one other question I have for you. On page 9 of your testimony, your small business figures include awards to small disadvantaged businesses. More specifically, in formulating your subcontracting plans, why do your small business goals include planned awards to small disadvantaged businesses?

Mr. SHEA. Would you repeat the question, please?

Mr. MITCHELL. OK. It seems to me you are dealing with two different things. You have awards to small disadvantaged businesses and I am asking you, in putting together your subcontracting plans, do your small business goals include the planned awards to small disadvantaged businesses?

Mr. SHEA. Yes, sir.

Mr. MITCHELL. They do. Doesn't that sort of double-count then?

Mr. SHEA. It has always our interpretation that the small disadvantaged business awards would be part of the small business also but we always break them out separately.

Mr. MITCHELL. It seems to me—and the staff can check me on this—that in the Office of Federal Procurement Policy, there is a letter 80-2 which requires separate goals. Is that correct?

Ms. ETHEREDGE. That is correct.

Mr. SHEA. We do break them out separately, sir.

Mr. MITCHELL. But in your reporting here, you have lumped them together.

Mr. SHEA. I have put the SDB's inside the small business, that is correct.

Mr. MITCHELL. Then, from my perspective, this is not really accurate in terms of Public Law 95-507; would you agree?

Mr. SHEA. If you would like to see them broken or taken out, we will certainly take them out, sir.

Mr. MITCHELL. I would appreciate it if you would. It seems to me there might be a vast differential between the awards and the goals, and when you combine the two, you get a very misleading picture.

I have a couple of other questions for each of you. Could you just tick off in some kind of order how do you see your problems in utilizing small and disadvantaged businesses? Is it location? Is it lack of communication, lack of awareness as to where they are? I would appreciate an answer from each of you, please.

Mr. DEAN. Most or our procurement dollars go toward capital equipment. Approximately 70 to 75 percent of our procurement dollars go into purchasing fabrication equipment to make wafers and assembly equipment. There are small businesses, entrepreneurial small businesses, which do participate in this activity and we do give them up-front money to help and encourage new designs. But we do find very few minorities who are participating in that. We are willing to support these businesses with money to help them come up with designs plus give them some technical help. We find very, very few disadvantaged businesses in the California area.

The other part of our major purchases is in the direct materials, such as silicon and packages. Again, there are very, very few small business or small disadvantaged suppliers that support our type business. It is very, very capital intensive.

Mr. MITCHELL. All right.

Mr. DEAN. Most of our disadvantaged dollars placed goes into the service field and the indirect supplies. There we do find, and we are able to come up with, a lot of suppliers.

Mr. MITCHELL. Mr. Cypert.

Mr. CYPERT. We have a number of firms, close to 400, in the disadvantaged area that we do business with. Through the various committees and outreach programs we have, we continue to find more as that population changes.

Our biggest problem is in the high technical major subsystem area where we write large-dollar subcontracts and finding firms that have made the capital investment are mature in that field. But in all of the other areas, in the component field, in the supplies and services, we find numerous companies are able to do business quite effectively in that sense.

Mr. MITCHELL. It is high tech, right?

Mr. DEAN. I think there are some differentiations between them. There are several high-tech fields. Ours is the basic field which is the circuit. You start with the circuit and it is put into a system. Our technology is one of the newer ones. Our company has only been in existence since 1967. We were a small business when we first started; we will probably be a $1.6 billion company this year. So we are the starting block, as far as the high.

Mr. MITCHELL. Mr. Shea.

Mr. SHEA. Most of our dollars for commitments go to, again, the high tech field. Many of the components and—quite frankly, most of the small disadvantaged business dollars that we are able to find, usually go to suppliers of high-tech components. Most of our major dollars, if you will, go to major subcontractors who have made that capital investment, as this gentleman has indicated, for major subsystems. Usually it takes close to 12 to 18 months for those people to qualify, and there is quite a bit of money involved in that qualification process.

One of the disappointments—I am pleased to have been part of the group—but one of the disappointments I felt this past year was that we had one particular supplier out in California who was a small disadvantaged supplier, and he used to supply printed wiring board material to us, a very excellent source. In May, they were acquired by a major corporation. I think that in the first panel that was one of the difficulties that we face, and that is one of the difficulties I face at CSD this year, to replace that sort of capability in a small disadvantaged source. So we do no longer have that source available to us. I am sure there must be some place out there that can replace that source as a small disadvantaged, but that is where most of our dollars go.

Mr. MITCHELL. Based on your responses, it seems to me that it is incumbent on me to initiate something, and that is that I think we need to make or get somebody to do it for us, compile a national roster of all small and disadvantaged businesses that are either in high-tech areas or approaching it. I think that it is incumbent on us to try to put that together. I don't know whether we can or not.

Since the thrust is in the high-tech area, I guess I want to be able to sit back and say this was a small and disadvantaged business that has now grown to $1.8 billion.

Mr. DEAN. It was $1.6 billion, maybe $1.8 billion later on.

Mr. MITCHELL. I mean $1.6, $1.8 is on the way.

I guess, at that point, I can retire and enjoy life because I know we are heading in the right direction.

Gentlemen, thank you very much.

Mr. Daub has some questions.

Mr. DAUB. Mr. Chairman, first parenthetically, maybe the trade associations could help us there, the electronics associations and maybe the MESBIC folks that we work so closely with who have probably done some of this in other places. So it would be a good idea to see if we couldn't get that. I certainly support that thought and idea on your part, and it ought to be.

Do you know of any such list available now that is comprehensive?

Mr. DEAN. Not that is all and comprehensive.

Mr. CYPERT. No single list. We have numbers of lists, but no single list.

Mr. DAUB. Let me ask Mr. Shea this question. In your written statement, you have indicated that GTE has received awards and commendations from the Government for its work in assisting small and small disadvantaged businesses in its subcontracting programs. What is GTE doing differently from other companies, in your opinion, that has made its program for compliance with section 211 successful?

Mr. SHEA. I think that, initially, back in the 1979 timeframe, especially at CSD, we recognized that there was going to have to be a major effort mounted, if you will, if we were going to improve our numbers significantly. Under those conditions, the organization moved out rather dramatically to identify and to develop small disadvantaged business sources in the New England area. To that extent, I think we have been reasonably successful.

Mr. DAUB. Thank you.

Mr. Cypert—and you may have heard my prior panel questioning relative to this particular general category of soft versus hard—do you think that an overall corporate goal or, as one said previously, profit center goal, rather than a contract-by-contract goal would be better—not necessarily better for you, but maybe better for the Government; or vice-versa, better for you and maybe awfully difficult for the Government to manage? How would you view that.

Mr. CYPERT. Our opinion is it would be better for both. You couldn't start with just a goal and decide that we couldn't administer it other than to cut it into its microelements, like we do with other programs where we have a single goal. So we would still have to do that. The Government could then take a broader-based look at how we are performing because, as you see, with over 1,000 contracts internally and over 130 plans, you are going to get a wide fluctuation in both opportunities and in the dollars that are placed.

As a consequence, if you could focus all of your activity on getting yourself a position to get the right firms in there and not spending a lot of time chasing these plans, writing the variance analyses, we just think that time could be better spent. I do think that the total dollars that go out the door—a dollar is a dollar to that businessman on the outside—is, in fact, a better measure of how you are performing.

Mr. **Daub.** I quibble with that a little bit, too. I also think that we need to examine what happens to that dollar and the learning curve, particularly in this industry as we become labor short in the baby-bust cycle ahead of us here.

I understand what you mean, a dollar is a dollar. By the same token, I am concerned about how many people are getting that opportunity, not necessarily the same businesses, not necessarily the same 8(a) firms, but businesses that are front operations and/or joint ventures to comply with mandates for these things, and then they really end up with majority firms subcontracting from a minority firm and, if you really analyzed where the business really is, it really wasn't getting the job done that we, in a true sense, under this law want to get accomplished. I am looking at that.

We make those distinctions now in terms of how we look at professional engineering work within the small business size standards, we have some of these kinds of distinctions based on dredging and highway contracting versus the softer services and other statutes in our programming in Government. I think that that is something that this committee ought to look forward to.

Did you have something to add?

Mr. **Cypert.** Yes. We took a look at our data. As I mentioned earlier, where the firms come and go in that sense, although there is a lot that we have had through the years, and we have around 400.

Mr. **Daub.** Yes.

Mr. **Cypert.** But we look out of our total dollars, which is over $15 million, we had only one firm that received in excess of $1 million. The rest of it was spread over all of those firms. So we weren't dominated by any one, two, or three firms that were receiving big chunks of that dollar——

Mr. **Daub.** I don't want you to misunderstand. I don't say dominated. Were these aggregate figures over the term of this law, or was that just for 1 year?

Mr. **Cypert.** One year.

Mr. **Daub.** Right now, I guess what I would say is that a year ago, 2 years ago or 3 years ago, did that pool of companies and the employment aggregate by the total of that pool of companies—be it 400 companies, 300 companies or 200 companies in the growth cycle—did that remain static?

Mr. **Cypert.** No. In 1981, it was about 235 and now it is around 400.

Mr. DAUB. Is it the attractiveness of this industry and a recognition by all businesses, be they large or small, disadvantaged or not, this is the place they ought to be?

Mr. CYPERT. I think for the direct dollars in our business—we are not production oriented, we build one or two and that is all—it is not terribly attractive because we have big fluctuations. We will do a lot of business this year and not very much next year.

But in the other areas where they are continuing support, as we do in our Space Park headquarters with 12,000 or 13,000 people, that is an attractive business. There is a large business for which a lot of other supplies, service and things can be brought to bear.

Mr. DAUB. Again, analogous to the Job Corps contract, for a year, you might be able to do it, and then when you lose that ability to add those statistical numbers, be they dollars or percentages, to the bucket, your total compliance percentage may drop a point even though you are doing a massive amount of additional business over in another part of your company.

Mr. CYPERT. That is correct.

Mr. DAUB. Thank you.

Does anyone else on the panel have anything to add to that?

Mr. DEAN. When I cited some of our other figures previously, when we take a Government contract. It is the same type of product that we are making for our commercial market, except that we do additional testing. That is the reason I brought that up.

I cited the VHSIC contract as an example. There is very, very little direct material content. We supplied a zero percent subcontracting plan because there was very little content in that whole contract for us to actually go out and buy. We have all the equipment in place for our commercial business product, so it made it very difficult for us. So when you asked the question previously on a contract-to-contract basis or as a broad spectrum, we are doing a lot more business as a broad spectrum, but on that specific contract we were not.

Mr. DAUB. Thank you very much.

Does anyone else have anything to say to that?

Let me ask you another question, gentlemen. Any of you can add to it if you want to reply. Do you feel that the $500,000 threshold level is too high, too low, just about right? Do you have any feelings about that?

Mr. BAISDEN. I would like to make one comment in that regard. I think that our recommendation with regard to extending the agreement to a higher level, in fact, performed a valuable service in the sense that it brings all subcontracting activity then into the surveillance of the general plan, and you no longer are concerned about a threshold level and setting that level at the right range.

In TRW, we now have 130 plans, and we do subcontracting under those plans. But we do a wide range of subcontract activity below that $500,000 threshold that doesn't fall under the scrutiny of any kind of monitoring activity as a result.

Mr. DAUB. Did any of you pursue the other panel's commentary generally about more uniform governmental planned requests on the part of all of the business that Government does?

Mr. MITCHELL. No, I didn't raise that.

Mr. **Daub**. You didn't raise that. All right. I didn't want to duplicate.

Do any of you have any feelings on that subject, that there seems to be right-hand, left-hand problems? You know, you go into one particular department and they have one view of this whole thing, and other department has another view. Does it complicate the matters, cost you money, or prevent you doing some of the subcontracting you might ordinarily do or want to do? Are there any concerns or problems there at all?

Mr. **Cypert**. I don't think it prevents us. I just think it is back into the idea that there is a lot of administrative effort required in that part that we would like to refocus elsewhere, but those activities aren't hampered.

Mr. **Daub**. OK.

I asked about generally the numbers of firms. You don't find that your subcontracting with the same 8(a) firms over and over and over again. I am very pleased to hear that. Not in the sense that I don't want them to have business—I don't want you to misunderstand—that the same firm, getting at this graduation problem, one firm gets it all, maybe not just from you, but if the facts were matched, maybe it is the same 8(a) firm almost industrywide across the country and, at least for 5 or 6 years, nobody else got involved. That is where I have been coming from for the last couple of years. But you are not seeing this problem of somebody getting big enough or locked in enough—for a while anyway, for 1 year or 2 or 3——

Mr. **Cypert**. No; and we recompete.

Mr. **Daub**. OK. That is good. I am glad to hear that.

Monitoring, you have no problems monitoring? Do you have any monitoring problems internally that are created by the statute or the regulations?

Mr. **Shea**. I would like just slightly to address that. There is very definitely a monitoring problem from the point of view of the $500,000 level, if you will. I think it has been voiced already that if we could go to a single plan for a plant or division, or what have you, on some sort of a threshold, that monitoring aspect in the administrative part of it, the efforts could be devoted really to the intent of the law, and that is really to develop those subcontractors out there that you so urgently need. The $500,000 level, from that point of view, and the monitoring aspects to it, it is difficult and it is complex.

[The following was received for the record:]

RESPONSE TO CHAIRMAN MITCHELL'S QUESTION CONCERNING FIVE GTE CONTRACTS

The five contracts designated by Chairman Mitchell were awarded to three of our four Divisions: Communication Systems Division had two - N00039-82-C-0241 and DAAK-80-80-C-0280; Strategic Systems Division had two - F04704-82-C-0045 and F04704-79-C-0070. The remaining contract N00039-82-C-0030, was awarded to the Western Division.

All of these contracts are for high-tech, sophisticated electronic systems. The majority of subcontracted dollars were used to purchase high value items, such as computers and computer peripheral equipment, synthesizers, power supplies, signal generators, amplifiers, and other major electronic sub-systems.

The majority of these items had to undergo extensive qualification testing at the component and system levels. A Small Disadvantaged goal for each contract was established after an analysis of the potential Bill of Material and services required for each contract was performed. The analyses were focused on the identification of the materials and services that had the potential to be purchased from Small and Small Disadvantaged Businesses. Small Disadvantaged sources are constantly being sought using available company source lists, the services of the Small Business Administration, and other publications, such as:

> Small Disadvantaged Business Enterprises, published by Defense Logistics Agency, Boston.
>
> Small Business Administration's Procurement Automated Source System(PASS)
>
> "TRY US," a National Minority Business Publication.

It is standard practice that Procurement personnel at each of our Divisions attend fairs and Congressionally sponsored Small Buisness Conferences in the New England States and in the California region. This is part of our ongoing effort to identify and develop Small Disadvantaged Businesses.

After the analysis of the Bill of Materials was completed, an intensive effort was exerted to identify Small Disadvantaged Business Concerns who are either qualified or have the potential to be qualified as a supplier of our needs. The percentage goals allocable to Small Disadvantaged Businesses are then determined from the total Response to Chairman amount of dollars estimated to be awarded for mateials and services.

In four of the five contracts designated by Chairman Mitchell, we have succeeded in meeting or exceeding the Small Disadvantaged Business goals. The sum of the five Small Disadvantaged Business goals was $1,164,042; we have exceeded that sum total by 110%, by subcontracting to Small Disadvantaged Business concerns a total of $2,450,122 for these five contracts.

For your information, we have attached a Summary Matrix of the five contracts which sets forth the status of each against our goal. Also attached are the most current executed standard Form 294's for each of the five contracts.

CONTRACT SUMMARY MATRIX

CONTRACT NO.	Dollar Value	Subcontract Dollar Value	Small Business Goals	Small and Disadvantaged Business
N00039-82-C-0241	$ 121,000,000	$ 15,103,023	$5,286,059 (35.0%)	$ 75,515 (0.5%)
Actual as of 4/20/84	$ 121,000,000	$ 13,746,877	$6,836,693 (49.7%) Exceeding Goal	$ 64,815 (0.5%) Meeting
DAAK80-80-C-0280	$ 170,986,000	$ 85,983,000	$17,626,000 (20.3%)	$ 189,000 (0.22%)
Actual as of 4/20/84	$ 335,000,000	$ 142,879,646	$44,042,303 (30.8%) Exceeding Goal	$ 1,105,460 (1.1%) Exceeding Goal
F04704-82-C-0045	$ 49,674,250	$ 14,291,803	$ 9,146,753 (64.0%)	$ 142,918 (1.0%)
Final as of 8 Mar 84	$ 49,674,250	$ 14,255,578	$ 8,521,613 (60.0%)	$ 129,469 (0.9%)
F04704-79-C-0070	$ 329,247,038	$ 120,180,687	$44,466,833 (37.0%)	$ 600,903 (0.5%)
December 1982	$ 255,906,501	$ 88,677,881	$23,140,897 (21.2%)	$ 486,420 (0.4%)
Final as of 9 Nov 83	$ 255,906,501	$ 88,677,891	$27,605,117 (31.2%) Exceeded Goal	$ 563,209 (0.6%) Exceeded Goal
N00039-82-C-0030	$ 265,350,000	$ 111,114,413	$31,510,947 (31.0%)	$ 155,706 (0.05%)
As of 21 April 84	$ 251,136,588	$ 130,635,705	$28,991,479 (27.4%)	$ 187,169, (0.18%) Exceeding Goal
Contract Goals Total:			$86,710,655 +33%	$ 1,164,042 +110%
Contract Actuals:			$115,997,205	$ 2,450,122

Form Approved OMB No. 0348-0020

FEDERAL AGENCY INDIVIDUAL SUBCONTRACTING REPORT

Note: See reverse side for necessary instructions.

1. Report Period (from/to): 10/1/83 to 3/31/84
2. Report No.: 3
3. Date of Submission: 4/20/84
4. Type of Contract: ☒ Prime ☐ Subcontract

SECTION 1 – GENERAL INFORMATION

5 a. Federal Agency/Contractor Awarding Contract: Dept. of the Navy Naval Electr. Sys. Command
b. Street Address:
c. City: Wash., d. State: DC e. Zip Code: 20363
f. Prime or Subcontract No.: N00039-82-C-0241 3

6 a. Reporting Contractor: GTE Communication Products, Corp., Communication Systems Division
b. Street Address: 77 A Street
c. City: Needham, d. State: MA e. Zip Code: 02194
f. Business Classification Code: L B
7. DUNS No.: 00-140-5844

8. Federal Agency Administering Contract: Defense Logistics Agency DCASPRO, Boston, MA
9. Dollar Value of Prime or Subcontract: $121,000,000

10. Goals	$	%
a. Small Business	5,286,058	35
b. Small Disadvantaged Business	75,515	0.5

SECTION 2 – TOTAL SUBCONTRACT AWARDS

11. Subcontractor Classification	Awards This Period		Cumulative	
	Dollars	%	Dollars	%
Total Subcontract Awards	$ 7,008,486	100	$ 13,746,877	100
a. Small Business	$ 3,074,343	43.9	$ 6,836,693	49.7
b. Small Disadvantaged Business	$ 24,821	0.4	$ 64,815	0.5
c. Other	$ 3,909,322	55.7	$ 6,845,369	49.8

SECTION 3 – INDIRECT SUBCONTRACT AWARDS (as required)

12. Subcontractor Classification	Awards This Period		Cumulative	
	Dollars	%	Dollars	%
Total Subcontract Awards	$	100	$	100
a. Small Business	$		$	
b. Small Disadvantaged Business	$		$	
c. Other	$		$	

SECTION 4

13. Remarks.

14 a. Name of Liaison Officer	b. Title of Officer	c. Phone No. (and Area Code)	d. Signature of Liaison Officer
A. M. Blackstone	Sr. Buyer	617-466-5023	A. M. Blackstone

15 a. Name of Reviewing Officer	b. Title of Officer	c. Phone No. (and Area Code)	d. Signature of Reviewing Officer
C. J. Shea	Procurement Manager	617-466-5021	C J Shea

Form Approved OMB No. 0348-0020

FEDERAL AGENCY INDIVIDUAL SUBCONTRACTING REPORT

Note: See reverse side for necessary instructions.

1. Report Period (from/to): 10/1/83 TO 3/31/84
2. Report No.: 5
3. Date of Submission: 4/20/84
4. Type of Contract: ☒ Prime ☐ Subcontract

SECTION 1 – GENERAL INFORMATION

5 a. Federal Agency/Contractor Awarding Contract: USACECOM,PROC & PROD DIRECTOR R&D PROC DIU,PROC BRC
b. Street Address:
c. City: FORT MONMOUTH d. State: NJ e. Zip Code: 07703
f. Prime or Subcontract No.: DAAK80-80-C-0280 3

6 a. Reporting Contractor: GTE Communication Products, Corp., Communication Systems Division
b. Street Address: 77 A Street
c. City: Needham d. State: MA e. Zip Code: 02194
f. Business Classification Code: L B
7. DUNS No.: 00-140-5844

8. Federal Agency Administering Contract: DCASPRO-GTE PRODUCTS CORP
360 FIRST STREET
NEEDHAM,MA 02194

9. Dollar Value of Prime or Subcontract: $335,000,000

10 Goals	$	%
a. Small Business	17,626,000	20.5
b. Small Disadvantaged Business	190,000	0.2

SECTION 2 – TOTAL SUBCONTRACT AWARDS

11 Subcontractor Classification	AWARDS THIS PERIOD DOLLARS	%	CUMULATIVE DOLLARS	%
Total Subcontract Awards	$ 4,894,709	100	$ 142,879,646	100
a. Small Business	$ 660,633	13.5	$ 44,042,303	30.8
b. Small Disadvantaged Business	$ (110)	0.0.	$ 1,505,460	1.1
c. Other	$ 4,234,186	86.5	$ 97,331,883	68.1

SECTION 3 – INDIRECT SUBCONTRACT AWARDS (as required)

12 Subcontractor Classification	AWARDS THIS PERIOD DOLLARS	%	CUMULATIVE DOLLARS	%
Total Subcontract Awards	$	100	$	100
a. Small Business	$		$	
b. Small Disadvantaged Business	$		$	
c. Other	$		$	

SECTION 4

13. Remarks

14 a. Name of Liaison Officer: A. M. Blackstone
b. Title of Officer: Sr. Buyer
c. Phone No (and Area Code): 617-466-5023
d. Signature of Liaison Officer: A. M. Blackstone

15 a. Name of Reviewing Officer: C. J. Shea
b. Title of Officer: Procurement Manager
c. Phone No (and Area Code): 617-466-5021
d. Signature of Reviewing Officer: C J Shea

[illegible] Report for
Individual Contracts

SUBCONTRACTING REPORT FOR INDIVIDUAL CONTRACTS
(Report to be submitted semi-annually. See back of form for instructions)

FORM APPROVED OMB NO. 3090-0052

1. REPORT NO. PER. OD — From (Date): 10 Aug 1982 — To (Date): 29 Feb. 1984
2. REPORT NO.: 1
3. TYPE OF CONTRACT: ☒ PRIME CONTRACT ☐ SUBCONTRACT
4. DATE SUBMITTED: 8 Mar. 1984

GENERAL INFORMATION

5. AGENCY/CONTRACTOR AWARDING CONTRACT (Name & Address):
Ballistic Missile Office
Air Force Systems Command
Norton Air Force Base
California 92409

7. REPORTING CONTRACTOR (Name and Address):
GTE Products Corporation
301 Conestoga Way
Henderson, NV 89015

8. PRIME CONTRACT NO. And Subcontract No. (If applicable): F04704-82-C-0045
9. BUSINESS CLASS CODE: LB
9. DUNS NO. (If applicable): 07170522
10. ADMINISTERING AGENCY: DCAS, Needham, MA 92194
11. DATE OF LAST GOVERNMENT REVIEW: None
12. REVIEWING AGENCY:
13. DOLLAR VALUE OF PRIME OR SUBCONTRACT: $49,674,250
14. ESTIMATED DOLLAR VALUE OF COMMITMENTS AS IN PLAN:

15 GOALS	DOLLARS	PERCENT
a. SMALL BUSINESS CONCERNS	9,297,505	64%
b. SMALL DISAD. BUSINESS CONCERNS	145,279	1%

SUBCONTRACT AND PURCHASE COMMITMENTS

COMMITMENTS	THIS REPORTING PERIOD		CUMULATIVE	
	DOLLARS	PERCENT	DOLLARS	PERCENT
16 TOTAL DIRECT SUBCONTRACT COMMITMENTS (Sum of a & b)		100	$14,255,578	100
a. TOTAL SMALL BUSINESS CONCERNS			$ 8,521,613	60%
(1) SMALL DISADVANTAGED BUSINESS CONCERNS (% of 16)			$ 129,469	.09%
(2) OTHER SMALL BUSINESS CONCERNS (% of 16)			$ 5,723,965	33%
b. LARGE BUSINESS CONCERNS (% of 16)			↓	
17 TOTAL INDIRECT COMMITMENTS (Sum of a & b)				
a. TOTAL SMALL BUSINESS CONCERNS				
(1) SMALL DISADVANTAGED BUSINESS CONCERNS (% of 17)				
(2) OTHER SMALL BUSINESS CONCERNS (% of 17)				
b. LARGE BUSINESS CONCERNS (% of 17)				

18 REMARKS

GTE anticipates meeting the goals as originally established by extraordinary purchasing planning.

19 TYPE THE NAME AND TITLE OF THE INDIVIDUAL ADMINISTERING CONTRACT Robert E. Cole Manager Contractual Relations	SIGNATURE Robert E. Cole	TELEPHONE NO. (and Area Code) (702) 564-8300
20 TYPE THE NAME AND TITLE OF THE APPROVING OFFICER H. L. Costenbader Director	SIGNATURE	(702) 564-8300

STANDARD FORM 294 (4-83)
Prescribed by GSA (FPR Temporary Regulation 59)

1850 ①

49,67

Form Approved OMB No. 0348-0020 **FEDERAL AGENCY INDIVIDUAL SUBCONTRACTING REPORT** Note: See reverse side for necessary instructions	1. Report Period (from/to) 1-16 October 1983	2. Report No. Final
	3. Date of Submission 9 November 1983	4. Type of Contract ☒ Prime ☐ Subcontract

SECTION 1 – GENERAL INFORMATION

5 a. Federal Agency/Contractor Awarding Contract BMO/USAF	b. Street Address Norton Air Force Base	c. City	d. State CA	e. Zip Code 92409	f. Prime or Subcontract No. F04704-79-C-0070	
6 a. Reporting Contractor GTE Communications Products Corp.	b. Street Address One Research Drive	c. City Westboro	d. State MA	e. Zip Code 01581	f. Business Classification Code LB	7. DUNS No 07170 522

8. Federal Agency Administering Contract	9. Dollar Value of Prime or Subcontract	10. Goals	$	%
Boston, DCASR	$255,906,501	a. Small Business	23,140,897	21.2
		b. Small Disadvantaged Business	486,420	.4

SECTION 2 – TOTAL SUBCONTRACT AWARDS

11. Subcontractor Classification	AWARDS THIS PERIOD		CUMULATIVE	
	DOLLARS	%	DOLLARS	%
Total Subcontract Awards	$ 429,539	100	$88,677,881	100
a. Small Business	$ 252,175	58.7	$27,605,117	31.2
b. Small Disadvantaged Business	$ 292	.1	$ 563,209	.6
c. Other	$ 177,072	41.2	$60,509,555	68.2

SECTION 3 – INDIRECT SUBCONTRACT AWARDS (as required)

12. Subcontractor Classification	AWARDS THIS PERIOD		CUMULATIVE	
	DOLLARS	%	DOLLARS	%
Total Subcontract Awards	$ 296,694	100	$ 25,315,485	100
a. Small Business	$ 176,038	59.3	$ 15,824,633	62.5
b. Small Disadvantaged Business	$ -0-	-0-	$ 383,257	1.5
c. Other	$ 120,656	40.7	$ 9,108,595	36.0

SECTION 4

13. Remarks:

1) Total Planned Subcontracting	$109,424,614
2) CY'83 Cumulative Award	
Small Business	$ 3,858,601
Small Disadvantaged Business	$ 79,991
3) CY'83 Forecast	
Small Business	$ 3,700,000
Small Disadvantaged Business	$ 75,000

14 a. Name of Liaison Officer Robert W. Mungovan	b. Title of Officer Sm. Dis. Bus. Off.	c. Phone No. (and Area Code) (617) 366-6000	d. Signature of Liaison Officer
15 a. Name of Reviewing Officer J. H. Pierce	b. Title of Officer Contractual Rel. Mgr	c. Phone No. (and Area Code) same	d. Signature of Reviewing Officer

SUBCONTRACTING REPORT FOR INDIVIDUAL CONTRACTS

(Report to be submitted semi-annually. See back of form for instructions)

FORM APPROVED OMB NO. 3090-0052

1. REPORTING PERIOD — FROM (Date): 1 October 1983 — TO (Date): 31 March 1984

2. REPORT NO.: 4

3. TYPE OF CONTRACT: ☒ PRIME CONTRACT ☐ SUBCONTRACT

4. DATE SUBMITTED: 21 April 1984

GENERAL INFORMATION

5. AGENCY/CONTRACTOR AWARDING CONTRACT (Name & Address)

Department of the Navy
Naval Electronic Systems Command
Washington, D.C. 20360

7. REPORTING CONTRACTOR (Name and Address)

GTE Communications Products Corporation
GTE Systems - Western Division
100 Ferguson Drive
Mountain View, CA 94043

6. PRIME CONTRACT NO. (And Subcontract No., if applicable): N00039-82-C-0030

8. BUSINESS CLASS. CODE: LB

9. DUNS NO. (If applicable): 00-149-5928

10. ADMINISTERING AGENCY: Defense Logistics Agency-DCASR-Los Angeles

11. DATE OF LAST GOVERNMENT REVIEW: November 1983

12. REVIEWING AGENCY: DCASMA-SF

13. DOLLAR VALUE OF PRIME OR SUBCONTRACT: $251,136,588

14. ESTIMATED DOLLAR VALUE OF COMMITMENTS AS IN PLAN: $130,635,705

15. GOALS	DOLLARS	PERCENT
a. SMALL BUSINESS CONCERNS	40,497,069	31.00
b. SMALL DISAD. BUSINESS CONCERNS	156,763	0.12

SUBCONTRACT AND PURCHASE COMMITMENTS

COMMITMENTS	THIS REPORTING PERIOD DOLLARS	THIS REPORTING PERIOD PERCENT	CUMULATIVE DOLLARS	CUMULATIVE PERCENT
16. TOTAL DIRECT SUBCONTRACT COMMITMENTS *(Sum of a & b)*	52,352,663	100	105,561,752	100
a. TOTAL SMALL BUSINESS CONCERNS	15,199,486		29,178,648	
(1) SMALL DISADVATAGED BUSINESS CONCERNS *(% of 16)*	22,597	.04	187,169	.18
(2) OTHER SMALL BUSINESS CONCERNS *(% of 16)*	15,176,889	28.99	28,991,479	27.46
b. LARGE BUSINESS CONCERNS *(% of 16)*	37,153,166	70.97	76,383,106	72.36
17. TOTAL INDIRECT COMMITMENTS *(Sum of a & b)*				
a. TOTAL SMALL BUSINESS CONCERNS				
(1) SMALL DISADVANTAGED BUSINESS CONCERNS *(% of 17)*				
(2) OTHER SMALL BUSINESS CONCERNS *(% of 17)*				
b. LARGE BUSINESS CONCERNS *(% of 17)*				

18. REMARKS:

Larger procurements from Large Business (IBM, Scientific Atlanta) were heavy during the past 6 months. Twenty-five million remain in planned subcontracting total to achieve Small Business goal.

19. TYPE THE NAME AND TITLE OF THE INDIVIDUAL ADMINISTERING CONTRACT	SIGNATURE	TELEPHONE NO. (and Area Code)
Carl Lindner Small Business Administrator	Carl Lindner	(415) 966-4217
20. TYPE THE NAME AND TITLE OF THE APPROVING OFFICER	**SIGNATURE**	
T. P. Hargarten Manager of Materiel		(415) 966-4309

(771-966-431-412-429-496-497)

Mr. DAUB. Are there any other comments?

Mr. Chairman, thank you very much.

Mr. MITCHELL. Staff just advised me of this SBA bulletin, which does not solve all of our problems, but might help down the line. It appears that the SBA is seeking to compile data on minority-owned firms and their capability to perform R&D. This project is expected to be completed by October 1; that will help some. That is just in the R&D aspect; I still think we need to pursue the other components.

Gentlemen, thank you.

Mr. CAMPBELL. Mr. Chairman.

Mr. MITCHELL. Yes.

Mr. CAMPBELL. May I make a statement, please, Mr. Chairman?

Mr. MITCHELL. Sure. If you would just identify yourself for the record.

Mr. CAMPBELL. Yes. I am Mr. Campbell of TRW. I am a small business specialist for the company at Space Park.

I am concerned about the portion on the noncompliance part, the impression that there is noncompliance with the law if the goals are set low.

We use bills of material, like Mr. Cypert pointed out, and equipment lists on the front end to identify the goals that I am involved in preparing the plans, so I have some pains there trying to get these goals established that are realistic. So, on the front end when we are responding to quotes, often the Government's requirement hasn't been definitized and we are just not sure of what commitments we can make. So we use what is defined and go with that and respond with goals that are as realistic as we can.

I think that you need to look at our actuals on some of these contracts after the bills of materials and equipment have been definitized. We do, in fact, place large dollar amounts, but, as Ed pointed out, we are going to have to look at going back and revising our plans once these actuals occur.

Mr. MITCHELL. Thank you.

It would be very interesting if you would send me some information on where you are down the line. I will be the first to admit that I would assume that the Federal Government agencies are not very definitive in setting their goals.

On the other hand, you run into the situation which really ticks me off where the agencies come in and say we have increased our small and disadvantaged utilization by 100 percent. If you have one orange and get another one, that is a 100-percent increase, but still only have two oranges, not a dozen. That is why I am particularly concerned about the level at which the goals are set.

If you would send me that information, I would appreciate it.

Gentlemen, I thank all of you very much.

[The information requested above follows:]

As you requested, we are happy to provide you with additional information regarding our actual performance on specific contracts as opposed to our original SF 294 goal.

There are two significant activities which influence the final small disadvantaged business subcontracts dollar value allocable to a specific prime contract: (1) the original goal is revised to reflect changes in our small disadvantaged subcontracts resulting from definition of the prime contract equipment list or bill of materials, and (2) the indirect small disadvantaged subcontracts are allocated to the prime contract. To illustrate these two factors, we have selected one of the contracts you pointed out and asked me to comment on during the testimony. Below reflects data from Attachment 1, Prime Contract Number F04701-81-C-0014, and an extract from Revision C to the Subcontracting Plan dated 13 February 1984. The Revision indicates that the goal for Small Disadvantaged Business has been revised to reflect the current status:

	Amount	Percent
Original direct commitment goal estimated	$1,985	.005
Total commitments	39,075,688	
Revised plan goals February 13, 1984:		
Direct commitments (revision C)	250,000	
Indirect commitments	2,226,162	
Total	2,476,177	[1] 6.0

[1] This percentage was developed using the total estimated direct and indirect commitments as the basis for these calculations.

To summarize briefly, TRW E&D during 1983 made subcontracts awards totaling $17,634,491 to small disadvantaged businesses. These awards constituted 5.4% of the total subcontracted dollar awards of $326,860,294. The $17,634,491 awarded to small disadvantaged business firms whether from funds classified direct or indirect by our accounting system, are chargeable to our Defense Prime Contracts and contributed equally to the development of entrepreneurship, the creation of additional jobs and the furtherance of the economic well-being of the small disadvantaged community.

We have recently received a Department of Defense report which indicates that TRW Inc. is number four among all defense contractors in the dollar value of prime contract awards by the DoD for Research, Development, Test and Evaluation. This fact coupled with the fact that TRW Inc. is number 19 among defense contractors when all DoD awards are considered, further confirm that an unusually large fraction of our total defense business is in the high technology area. The environment in which we develop most of our state-of-the-art systems require subcontractors who must invest large amounts of capital to develop and maintain technically complex products. Since most of these are classified as large business we are constrained by a limited number of high technology small and small disadvantaged business concerns for our direct dollar commitment. Our strategy therefore, is to: (1) continue to identify and develop S/SDBC sources for our direct charge high-tech products, and (2) emphasize S-SDBC subcontracting where we have more opportunity, which is typically in non-high technology areas where indirect dollars are committed. As a result, our indirect contract allocations contain the higher percentages of our commitment to these firms. Historically, since senior management wanted to insure that individual Program Managers would exert the maximum effort possible in placing subcontracts with Small and Disadvantaged firms with the direct dollars, only the direct portion of our goals have been reported on the SF 294's. However, recognizing that confusion has existed as a result, TRW will include both direct and indirect goals in all future SF 294's.

In order to differentiate between direct charge and indirect charge commitments, TRW utilizes the definitions contained on the reverse of the SF 294 as its guideline. These definitions are included below:

1. Direct commitments are those which are identified with the performance of a specific contract, including allocable parts of awards for material which is to be incorporated into products under more than one Government contract.

2. Indirect commitments are those which, because of incurrence for common or joint purposes, are not identified with specific Government contracts; these awards are related to Government contract performance but remain for allocation after direct awards have been determined and identified to specific Government contracts.

Utilizing these definitions, TRW develops both its direct and indirect Small and Small Disadvantaged Business Goals which are negotiated with our customers and incorporated into the Subcontracting Plan as part of that contract. The Subcontracting Plan is then the basis for the Small and Small Disadvantaged Goal Data included in the SFA 294's. The individual Subcontracting Plans are maintained and Small and Disadvantaged Business Goal and Achievement data updated by the TRW Contract Administrators.

Consideration of both direct and indirect dollars for goal establishment and goal achievement data is appropriate since the prime contract dollars received by TRW E&D reimburse the company for both its direct and indirect expenses. Further, the subcontracts or purchase orders received by our suppliers are indistinguishable in terms of whether the source of their funding is direct or indirect dollars.

Mr. MITCHELL. Our concluding witness for today is Joseph Boyle, the corporate manager of the McDonnell Douglas Corp.

You have been very, very patient. Believe me, both Congressman Daub and myself are most appreciative, not only of your patience, but of your willingness to come here to testify. Thank you very much.

TESTIMONY OF JOSEPH W. BOYLE, CORPORATE MANAGER, MINORITY AND SMALL BUSINESS UTILIZATION AND PURCHASE ORDER ANALYSIS, McDONNELL DOUGLAS CORP.

Mr. BOYLE. Mr. Chairman, I appreciate that.

Good morning, Mr. Chairman. My name is Joe Boyle, and I am the corporate manager for minority and small business utilization and purchase order analysis at McDonnell Douglas Corp. Essentially my job is to coordinate and oversee all corporate activity in the area of small and minority business so that McDonnell Douglas in compliance with our stated corporate objectives as well as applicable U.S. Government contracts and policies. This includes compliance in the area of equal employment opportunity, minority business programs, labor surplus area procurement, and procurement from small disadvantaged businesses, blind institutions and the handicapped.

I appreciate the opportunity to appear today before the Subcommittee on SBA and SBIC Authority, Minority Enterprise and General Small Business Programs to discuss McDonnell Douglas' subcontracting activities under section 211 of Public Law 95-507.

In the interest of time, I will make my remarks brief.

As you know, Public Law 95-507 was enacted in 1978, and required essentially that all federally funded contracts must provide the maximum practical opportunity for small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals to participate in the performance of the contract. McDonnell Douglas Corp. is in full compliance with section 211 of the law and, in addition to the specific requirements of Public Law 95-507, we have undertaken additional initiatives to promote small and small disadvantaged businesses. These include:

One, since 1964, the publication on a quarterly basis of a small business new letter.

Two, publication of a small disadvantaged business directory.

Three, member of the National Minority Business Development Council.

Four, recognition and incentives for outstanding buyer accomplishments in the small/small disadvantaged area.

Five, member of the PASS system.

Six, attend or participate in small/small disadvantaged business conferences held throughout the Nation.

The results of our efforts can be seen by looking at some statistics in this area: Small business:[1] Number of purchase orders to small/small disadvantaged businesses, 107,383; percentages, 66.4; dollar value of purchase orders to small/small disadvantaged businesses, $517.5 million; percentages, 16.

Small disadvantaged business concerns: Number of purchase orders, $4,726; percentage, 3 percent; dollar value of purchase orders, $17.4 million; percentages, .05.

At McDonnell Douglas we take a lot of pride in our accomplishments and ongoing efforts with the small and minority business and, likewise, we are proud of the fine service these companies are providing to us and, to the country as a whole. In recent years, we have been recognized in a number of ways for our small business activities and accomplishments.

First, a member of our staff was honored by the President of the United States recently, with an invitation to the White House for the opening ceremony to celebrate the first Minority Business Week. McDonnell Douglas was only one of two prime contractors to be invited because of their outstanding contribution and participation in our minority business programs.

Second, National Defense Logistic Agency Award for an outstanding program for small and small disadvantaged business concerns.

Third, a member of our staff was selected 1983 Minority Advocate of the Year for the State of Missouri.

Fourth, 1984 Small Business Development Award winner for the State of Missouri.

[Additional comments of Mr. Boyle follow:]

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[1] Figures do not include Douglas Aircraft, McDonnell Douglas of Canada, and Vitek.

MCDONNELL DOUGLAS
CORPORATION

HAND DELIVERED

April 4, 1984

The Honorable Parren J. Mitchell
Chairman
Committee on Small Business
House of Representatives
2361 Rayburn House Office Building
Washington, D.C. 20515

Dear Chairman Mitchell:

This is in response to your recent letter requesting participation by McDonnell Douglas Corporation in your Committee's upcoming hearing on subcontracting activities pursuant to Section 211 of Public Law 95-507. As you may know, McDonnell Douglas has a very active and successful program for small and disadvantaged businesses, the scope and results of which we would very much like to share with the House Small Business Committee. Unfortunately, scheduling conflicts will prevent senior management from testifying on April 25, however, responses to subjects raised in your letter are enclosed for the Committee's consideration. Should further information or participation be in any way helpful, we would welcome the opportunity to work with you, your staff and other members of the Committee.

Very truly yours,

McDONNELL DOUGLAS CORPORATION

Dennis P Sharon

Dennis P. Sharon
Director, Legislative Liaison

DPS:njr
Enclosures (3)

Responses to Congressman Mitchell, Chairman, House Small Business Committee, regarding Section 211 of Public Law 95-507.

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(1) McDonnell Douglas Corporate Policy Statement 6.001 states the policy of McDonnell Douglas Corporation that Small and Small Disadvantaged businesses shall have the maximum practicable opportunity to participate in the performance of subcontracts let by any Component of McDonnell Douglas Corporation. Subcontracting procedures will be in accordance with Government regulations. Emphasis is placed on complying with Public Law 95-507 "Amendments to the Small Business Act," including the submittal of a subcontracting plan as required. Further emphasis is placed by all functional divisions within each Component to ensure early identification of requirements as candidates for Small and Small Disadvantaged business subcontracting. McDonnell Douglas' Subcontractor Source Selection Board considers the capabilities of qualified Small and Small Disadvantaged firms in the creation of its bidders list. Buyers include a representative number of Small/Small Disadvantaged businesses, if known and qualified, in all competitive bids. (Policy statement 6.001 attached.)

(2) The dollar figures of Federal Prime Contracts received by McDonnell Douglas Corporation are not available, but the following is a tabulation of the procurement dollars which, in fact, are what all Government reporting requirements are geared to:

	1981	1982	1983
Number of Purchase Orders to Small/ Small Disadvantaged Businesses*	97,951	110,655	107,383
Percentages*	68.6%	69.6%	66.4%
Dollar Value of Purchase Orders to Small/Small Disadvantaged Businesses	$486.0 (Millions)	$403.6 (Millions)	$517.5 (Millions)
Percentages*	15.6%	16.9%	16.8%

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* Figures do not include Douglas Aircraft, McDonnell Douglas of Canada, and VITEK.

(3) The McDonnell Douglas "Small Business Newsletter" (first published in 1964) enclosed which is issued quarterly highlights the individual accomplishment of Buyers at each Component as it pertains to the particular subcontracts that the Buyer has awarded during that quarter to either a Small or Small Disadvantaged business concern. Further publicity is given to Buyers who excel in the Small/Disadvantaged business area by having their photographs and accomplishments highlighted in our "Small Business Newsletter" and Corporate newspaper. McDonnell Aircraft Company has an incentive program whereby the Buyer who has accomplished the most in the Small/Small Disadvantaged business field receives a preferred parking slot for the next quarter.

(4) A quarterly MDC Small Business Newsletter is distributed to all Buyers to publicize and maintain an awareness of the importance of these Programs. Also a MDC Small Disadvantaged Business Directory is published to assist Buyers in locating such sources. A course for Buyers titled "Procurement under Government Contracts" is atught by the Corporate Manager-Minority and Small Business Utilization and includes a lesson on "Small/Small Disadvantaged Business Requirements." And, last but not least, MDC Components have committees which meet quarterly to develop additional ways of assisting small disadvantaged firms. Reports are submitted to the Corporate office stating what actions have been taken and describing the results of these actions.

(5) Due to the fact that we as a Corporation have always emphasized doing business with Small and Small Disadvantaged businesses, the only change in our Subcontracting Program due to Public Law 95-507 is, in fact, the negotiations of the subcontracting plans per the requirements of Public Law 95-507.

MCDONNELL DOUGLAS
CORPORATION

CORPORATE POLICY STATEMENT

CPS NO: 6.001
DATE: 31 May 82
SUPERSEDES: AD 6.1, AD 6.3 and AD 6.7
PAGE 1 OF 1

SUBJECT: PROCUREMENT FROM SMALL BUSINESS, SMALL DISADVANTAGED BUSINESS, AND BUSINESS IN LABOR SURPLUS AREAS

A. SUMMARY:

This CPS describes MDC procurement policy that is in compliance with applicable requirements of U.S. Government contracts and MDC objectives. Examples are Equal Employment Opportunity (EEO) and minority business programs (blacks, Hispanic, women); labor surplus area procurement; and procurement from small business and small disadvantaged business, blind institutions, and the handicapped.

B. REGULATIONS:

1. This CPS applies to Corporate Office and all divisional companies, and will apply to wholly-owned subsidiaries as adopted by their Boards of Directors.

2. MDC will provide, in accordance with appropriate Federal regulations, maximum practical opportunities for those businesses classified as small business, economically or social disadvantaged, or located in labor surplus areas, to be participants in MDC procurements. MDC supports the use of the procurement system to assist socio-economic disadvantaged businesses to become viable cost effective competitors.

3. Federal regulations require that no government contract and no subcontract or modification thereto be entered into with firms not in compliance with the Federal Equal Opportunities program. Any MDC component, receiving notice of noncompliance of an MDC supplier with an EEO program, will promptly notify the Staff Vice President-Material who will in turn notify the Corporate Vice President-Contracts and Controller and the Corporate Vice President-Personnel. After determination of necessary corrective action by Corporate Personnel, contact with the supplier will be through the Staff Vice President-Material.

4. Overall cognizance of procurement from small disadvantaged business, and labor surplus area firms is the responsibility of the Staff Vice President-Material. The Manager-Minority and Small Business Utilization and Purchase Order Analysis will administer these programs among and within components. The component Small Disadvantaged Business and Labor Surplus Areas representatives within the Material organization will coordinate and administer these programs.

J. F. McDonnell

J. F. McDonnell
President

Mr. **Mitchell**. Thank you very much.

It is no great secret that I am particularly interested in small and disadvantaged businesses. I asked for you to include data on small and disadvantaged business awards for the fiscal year 1981 and 1982, but you did not include that. Why didn't you include it?

Mr. **Boyle**. I was not informed that that was a requirement, or I would have.

Mr. **Mitchell**. That was in the letter of invitation that we sent to you.

Mr. **Boyle**. We overlooked it, Mr. Chairman.

Mr. **Mitchell**. OK.

In addition, you say that the total dollar value of prime contracts received by McDonnell Douglas was not available. Did you really mean to say that?

Mr. **Boyle**. Yes. It was not available to my concerns specifically. I represent the procurement side of our corporation and, as such, am overseer of reporting requirements to the Government as such on the 294 and 295 forms. Specifically, what we do and what I personally do on behalf of the corporation is actually just the procurement dollars as such. It was not available to me personally.

Mr. **Mitchell**. But the Department of Defense puts that out. It is there. This is public record of the top 100 prime contractors in DOD. It shows that breakdown to be $4.4 billion in 1981; $5.6 billion in 1982; $6.1 billion in 1983.

Again, I would ask you, if you could, Mr. Boyle, to go back and get me a breakdown on the small and disadvantaged business participation.

Mr. **Boyle**. In what years, Mr. Chairman?

Mr. **Mitchell**. Just for 1981, 1982, and 1983 would be fine.

Mr. **Boyle**. We will do that, sir.

[The information requested follows:]

	1981	1982	1983
Small business:[1]			
Number of purchase orders to small/small disadvantaged businesses	97,951	110,655	107,383
Percentages	68.6	69.6	66.4
Dollar value of purchase orders to small/small disadvantaged businesses (millions)	$486.0	$403.6	$517.5
Percentages	15.6	16.9	16.8
Small disadvantaged business concerns:[1]			
Number of purchase orders	4,083	5,351	4,726
Percentages	2.8	3.4	3.0
Dollar value of purchase orders (millions)	$22.2	$22.9	[2] $17.4
Percentages	0.7	0.6	[2] 0.5

[1] Figures do not include Douglas Aircraft, McDonnell Douglas of Canada and Vitek.

[2] Reduction in dollars and percentage due to a major small disadvantaged business concern included in 1981 and 1982 figures being declared a large business. If we were able to include the dollar figure of our business with this firm in 1983 as we had in 1981 and 1982 our 1983 percentage figure would be 0.7 percent.

Note.—Due to the fact that we are a high technology corporation we do encounter some problems in finding qualified small disadvantaged business concerns.

MDC—CALENDAR YEAR 1983: ASSISTANCE TO MINORITY AND HANDICAPPED ENTERPRISES

	MCAIR	MDAC-TVL	MDAC-STL	Tulsa	MDEC	MDAC-HB	DAC	Total
1st quarter	$6,625,465	$233,572	$195,865	$416,376	$47,220	$396,064	$648,071	$8,562,633
2nd quarter	5,949,358	98,695	2,816,887	327,287	37,628	476,017	1,280,502	10,986,374

MDC—CALENDAR YEAR 1983: ASSISTANCE TO MINORITY AND HANDICAPPED ENTERPRISES—Continued

	MCAIR	MDAC-TVL	MDAC-STL	Tulsa	MDEC	MDAC-HB	DAC	Total
3rd quarter	3,756,712	60,476	407,026	391,169	76,470	469,681	1,842,008	7,003,542
4th quarter	5,766,122	47,720	231,058	214,239	70,659	973,871	2,016,440	9,320,109
Total	22,097,657	440,463	3,650,836	1,349,071	231,977	2,315,633	5,787,021	35,872,658

Mr. **Mitchell**. I will do the same with you as I have done with every other witness who has appeared. Somebody will hand you a list of four contracts you had in 1981, 1982, and so forth.

I will look at the small and disadvantaged participation: the first contract, 0.17 percent; second contract, 0.15 percent; third contract, 0.4 percent; and on the fourth contract, it is 0.5 of 1 percent.

How do you explain this miniscule participation of small and disadvantaged businesses in these contracts?

Mr. **Boyle**. Presumably, Mr. Chairman, because of the nature of our business, we do have a very hard time of finding small disadvantaged firms.

Mr. **Mitchell**. Are these all high-tech contracts?

Mr. **Boyle**. I would presume so. We are in a high-tech industry as such. Some of the components that do report to me, we have one or two that are in fact, job shop outfits, others are electronic outfits, and in those particular areas, we do very, very well in both the small business and the minority business area. In other contracts where we build sophisticated fighter planes as such and the main dollar value is of high tech items, we do very, very poor.

So I would presume that this is in this area, but I was not aware of this. I could look that up and find it out for you.

Mr. **Mitchell**. I would appreciate it if you would.

[The information requested above follows:]

[The four contracts referenced by Chairman Mitchell are in fact high technology contracts—specifically F-18, Harrier, F-18, and F-15. Listed below are the dollar figures and percentages for each contract.]

McDONNELL DOUGLAS

Contract number	Dollar value	Subcontract dollar value	Goals			
			Small business	Percent	Small and disadvantaged business	Percent
(F-18): N00019-81-C-0157	2,812,050,296	1,453,943,000	137,646,568	8.6	4,525,300	.17
(Harrier): N00019-81-C-0497	434,434,046	28,444,000	3,792,600	13.3	42,172	.15
(F-18): N00019-82-C-0501	1,706,335,000	532,252,577	75,157,752	14.2	1,980,416	.4
(F-15): F33657-79-C-0779	3,499,051,602	1,753,034,311	198,157,218	22.2	12,717,308	.5

Mr. **Mitchell** [continuing]. My whole point is we are dealing with rather substantial contracts, and I don't think we begin to create the kind of situation that I am interested in or the situation that you have expressed an interest in, of really enhancing the participation or helping people to grow. We are not doing that for as long as these percentage of participation figures remain so small.

Let me ask about your F-15 contract. I am not nitpicking now, but I think this sort of goes to one of the major problems we confront. You have an F-15 contract with the Air Force. You submitted a subcontracting plan and, just in one sentence, you state the percentage goal for the utilization of small business concerns is 22 percent, and the utilization of small disadvantaged business concerns is 0.5 of 1 percent. I am not quarreling with your percentages. I don't like them. I don't like the latter one, but that is not my issue.

Mr. **Boyle**. We don't like them either.

Mr. **Mitchell**. But the problem is that there is the Office of Federal Procurement Policy which says that that statement must include total dollars to be subcontracted to small businesses, total dollars to be subcontracted to small disadvantaged businesses right down the line.

Why was that requirement waived on this contract?

Mr. **Boyle**. I have no idea. I was not aware of that. I have seen an awful lot of F-15 plans, Mr. Chairman, whereby we do break it down. We have what is known as a corporate master plan, and it is broken down according to those guidelines as such.

Mr. **Mitchell**. That is what intrigues me, that apparently, based on what we know of your record, that breakdown is given in almost every other plan. But it was not done in your F-15 contract. Could you get me that breakdown?

Mr. **Boyle**. You wouldn't happen to have the number of that?

Mr. **Mitchell**. Yes.

Mr. **Boyle**. It would help out.

Mr. **Mitchell**. F33657-79-C-0779.

It was in such sharp variance with your other plans that I just couldn't understand why this would occur.

Mr. **Boyle**. It is contrary to our policy and our written guidelines, because I personally did draft our corporate master plan that does break that down.

Mr. **Mitchell**. But you will get me that information?

Mr. **Boyle**. I certainly will, Mr. Chairman.

Mr. **Mitchell**. Thank you.

[The information requested follows:]

MCDONNELL AIRCRAFT COMPANY S/C Plan For Contract No F33657-79-C-0779
F-15 FY79 Production

1.0 General - The McDonnell Aircraft Company (MCAIR) actively supports the Federal Government policy that small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in our subcontracting programs. Bids will be secured from these firms on procurements where qualified small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals are known. It should be noted, however, that awards are normally placed on a competitive bid basis. Therefore, MCAIR cannot forecast actual placement of subcontracts. MCAIR has consistantly been awarded an "Excellent" for its socio-economic programs by Air Force and SBA reviewing personnel.

2.0 Goals - The percentage goal for the utilization of small business concerns is 22.2 percent and for the utilization of small disadvantaged business concerns is .5 percent. Percentages were developed by analyzing the procurement plan, identifying actual known large, small and small disadvantaged sources, and applying historically developed ratios to the balance of the material requirements. A computer analysis of all purchase orders processed in 1979 shows that both small firms and small disadvantaged firms will win most of their awards in the areas of facilities contracts, general supplies, lab materials, purchased parts, tooling, and specialized subcontract work. MCAIR has over 19,000 firms in its bid list. Of these, 14,000 are small and 400 are small disadvantaged firms. PASS, TRY-US, and the NMPC are also used as required to obtain additional sources. Approximately 65 percent of all purchase orders are awarded to small businesses. Indirect and overhead costs are allocated on the basis of the productive effort attributable to that contract as a percent of MCAIR's overall productive effort. These indirect and overhead costs are segmented by large, small and small disadvantaged firms.

3.0 Name of Individual - S. T. Kauffman, Manager, Small Business Utilization, will administer this program. His duties are to administer, coordinate and expand the utilization of small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals. He reports directly to R. J. Alagna, Staff Vice President Material, on corporate matters and to R. C. Bartz, Vice President-Material, MCAIR, on McDonnell Aircraft Company matters.

3.0 (Cont'd) E. T. Wahl has the responsibility to oversee the purchase order audit function to assure that the proper clauses are incorporated in all MCAIR purchase orders in accordance with applicable procedures, regulations, and the law. She maintains close coordination with Material procurement and requirement functions and will assure that the importance to the U. S. Government small and small disadvantaged business program is properly conveyed to the appropriate procurement managers and buyers, and that proper clauses are implemented into all subcontracts.

S. T. Kauffman also is a representative for MCAIR on various industry committees and is responsible for liaison with DOD and SBA officials. He attends procurement conferences, selected symposiums on small business, and seminars on government procurement. Accordingly, he is conversant with the current policies and legislation in the small business area. He assures their intent and purpose is implemented into MCAIR policies and procedures as well as overall business methodology.

He assists small business and/or small disadvantaged business as required regarding doing business with MCAIP Quality Assurance Support and Provisions, requirements interpretations, payment policies and procedures, and other support as required.

S. J. Sealey, Administrator-Minority Subcontracts, attends monthly meetings of the Missouri-Southern Illinois Regional Purchasing Council which is the St. Louis Council of the National Minority Purchasing Council. He attends Federal Procurement Conferences, and represents MCAIR at other small business meetings and conferences.

4.0 Description of Effort - (See Attachment for the step-by-step description of MCAIR action as related to the Air Force Subcontracting Plan Evaluation Guidelines.) In order to assure that small business concerns and small business concerns owned and controlled by socially and economically disadvantaged individuals will have an equitable opportunity to compete for subcontracts, the following steps have been taken:

- Identify all MCAIR potential sources as large concerns, small concerns, or small concerns owned and controlled by socially and economically disadvantaged individuals.

4.0 (Cont'd)

- o Include at least one small business concern and one small business concern owned and controlled by socially and economically disadvantaged individuals in all Request For Quote lists where such concerns are known to exist and are qualified to supply the item or service being procured. The Procurement Automated Source System (PASS) of the Small Business Administration will be used as required.

- o Assist small concerns owned and controlled by socially and economically disadvantaged individuals by providing management counseling on request. Offer to sell MDC-owned surplus equipment to socially and economically disadvantaged firms at nominal prices.

- o Publish a quarterly "Small Business Newsletter" to publicize the Small/Minority Business Program, keep the buyers informed of their small/minority program progress and assist small/minority firms as feasible.

5.0 Clause Flowdown - The clauses, Utilization of Small Business and Small Disadvantaged Business Concerns DAR 7-104.14(a) and Subcontracting Plan for Small Business and Small Disadvantaged Business Concerns DAR 7-104.14(b) will be included as required in all subcontracts which offer further subcontracting opportunities.

6.0 Reports - Cooperate in any studies or surveys as may be required by the Federal agency or the Small Business Administration and submit the necessary reports in accordance with Defense Acquisition Regulation 7-104.14(b).

7.0 Records - RAMAC computer records will be maintained to show, on a quarterly basis, by various tab runs, the following subcontract information:

- o Commitments to large concerns, small concerns, and small concerns owned and controlled by socially and economically disadvantaged individuals.

- o Awards to small concerns of less than $10,000 and awards to small concerns of $10,000 or more.

- o Awards to large concerns of less than $10,000 and awards to large concerns of $10,000 or more broken down into various analytical groupings. Contract records will be maintained to show status of purchase order activity against goals for each plan.

All MCAIR records regarding suppliers and potential suppliers will indicate the concern's status as large, small, or minority-owned. A separate list/directory will be maintained for minority-owned concerns. Purchase order folios will be maintained and will be available for review by authorized personnel.

ATTACHMENT TO THE SMALL AND SMALL DISADVANTAGED SUBCONTRACTING PLAN

This additional information is provided to supplement the data provided in the Subcontracting Plan.

1. Does the contractor have acceptable company-wide small and small disadvantaged business policy statements?

   Yes. MDC Administrative Directive 6.7 states that it is the policy of MDC that small businesses and small disadvantaged businesses, those owned and controlled by socially and economically disadvantaged individuals, shall have the maximum practicable opportunity to participate in the performance of subcontracts let by any component of McDonnell Douglas Corporation. Subcontracting procedures will be in accordance with Government Regulations. Emphasis will be placed in complying with Public Law 95-507 "Amendments To The Small Business Act," including the submittal of a subcontracting plan as required.

   Greater emphasis must be placed by all functional divisions within each component to ensure early identification of requirement as candidates for small and small disadvantaged business subcontracting. Procurement Review Boards must consider the capabilities of qualified small and small disadvantaged firms to the extent practicable. Buyers should include at least one small disadvantaged business, if known and qualified, in all competitive bids. (Refer also to MDC A.D. 1.19 and MCAIR C.P. 6.100)

2. Did the contractor demonstrate sufficient management interest and involvement?

   The contractor is fully committed to the socioeconomic programs from the top echelon of management to the buyer level where policy becomes action. As long ago as 1974, MDC established a program to provide assistance to minority owned firms. This assistance included management counseling, providing surplus equipment at nominal costs, and emphasizing the use of MBE's for shop overload work. This program was again reemphasized in August 1979 with the added goal of increasing MDC's minority subcontracting program. In 1978 MDC-STL embarked on a program to vastly improve its total commitment to minority firms. An Administrator, Minority Subcontracts was appointed with the sole objective of working with minority businessmen and MDC buyers in an effort to increase the value of business placed with MBE's. A Minority Subcontractor's Seminar was held at MDC's Headquarters and was attended by over 150 guests. Additional extensive effort was made to locate qualified minority firms with which to do business. In this connection, MDC-STL has increased the number of MBE's in its data bank from 48 to 383 since President Carter's directive to all Executive Departments to expand their MBE purchases. In addition, buyers were directed to include at least one minority source, if known and qualified, in all competitive bids. An MDC Minority Business Directory was published to assist buyers in locating such sources.

2. (Cont'd) MDC continues to publish its Small Business Newsletter which has as one of its objectives the furnishing of information which assists small and minority businesses to become viable members of the business community.

3. Does the contractor have a program to train and motivate personnel to support subcontracting with small and small disadvantaged firms?

Yes. The importance of the Government's and MDC's socioeconomic programs is emphasized through continued correspondence, meetings, and training sessions. Recently a film titled "It Can('t) Be Done" was shown to all purchasing agents. Quarterly socioeconomic reports are issued by the Manager, Small Business Utilization to all buyers providing current data on program progress. A quarterly MDC Small Business Newsletter is distributed to all buyers to publicize and maintain an awareness of the importance of these programs. A course for buyers titled "Procurement Under Government Contracts" taught by the Corporate Manager, Purchase Order Analysis, includes lessons on "Small/Minority Business Requirements." Buyers are required to code each purchase order to reflect specific small/minority business actions. A monthly review is made of all purchase orders to verify that these codes are properly applied and mistakes are discussed, as required, with the buyer by the Manager, Small Business Utilization. And, last but not least, MDC components have committees which meet quarterly to develop additional ways of assisting minority and handicapped firms. Reports are submitted to the corporate office stating what actions have been taken and describing the results of these actions.

4. Does the contractor provide special assistance to small and small disadvantaged firms?

Yes. In August 1974, the contractor established a program to provide assistance to minority and handicapped enterprises. Each component identified individuals in each major function such as Engineering, Manufacturing, Material, Office Services, etc. who would provide MBE counseling on request. This program has been expanded so that committees meet quarterly to determine other ways of assisting these firms. Sam Sealey, the Administrator-Minority Subcontracts, provides counseling to MBE's regarding MDC requirements, how to bid, payments, etc.

The contractor issues a Small Business Newsletter that contains information to help small and small disadvantaged firms--information on taxes, accounting, metric system, etc. A separate Small Business Conference Room is maintained for small/disadvantaged business interviews. Contractor field representatives provide technical assistance to subcontractors and communicate problems to cognizant personnel at MCAIR in order that assistance can be provided.

5. Does the contractor consider the potential of small and small disadvantaged firms in make-or-buy decisions?

Corporate policy promulgated by Administrative Directive 1.19 states that each component will give small and minority business concerns maximum practicable opportunity to obtain subcontracts. However, a make-or-buy plan will not include items or work efforts costing less than $500,000 or 1% of the total estimated contract price, whichever is less.

6. Does the contractor counsel small and small disadvantaged firms and discuss subcontracting opportunities with them?

Yes. As mentioned previously, the Contractor issues a Small Business Newsletter containing information to help small/minority firms. A separate Small Business Conference Room is maintained for Small/Minority Business interviews. This conference room contains the latest pamphlets and information published by government and private agencies to help these firms. The Administrator-Minority Subcontracts contacts minority firms which fail to respond to an RFQ. This provides him a chance to ascertain the causes for No Bids and to advise the supplier for future requests.

7. Does the contractor provide for flow down of the subcontracting plan clause to appropriate subcontracts?

Yes. The contractor's Purchase Order Terms and Conditions, MDC Form 450 includes the flow down clause for subcontracting (P.L. 95-507).

8. Does the contractor assure in the plan that he will submit periodic reports and cooperate in any studies or surveys as may be required to determine compliance with the plan?

Yes. The following excerpt is taken from the plan: "Cooperate in any studies or surveys as may be required by the Federal agency or the Small Business Administration and submit the necessary reports in accordance with Defense Acquisition Regulation 7-104.14(b)."

9. Will adequate records be maintained?

Yes. Records will be maintained to show commitments to large concerns, small concerns and small disadvantaged concerns. Awards to large concerns of $10,000 or more will be broken down into various analytical groupings. All supplier and potential supplier records will indicate the concern's status as large, small, or minority-owned. A separate list/directory is maintained for minority-owned concerns.

H140K-53
Encl (2)

CONTRACT NAME: F-15 FY 1979

APPLICABLE J. O. NOS.

CONTRACT NO. F33657-79-C-0779

CONTRACT COORDINATOR: Dick Richards

PHONE NO. 29065

Development of Goals:

Materials	TOTAL	LARGE	SMALL	MBE
1. F-15 1979 RAMAC List	338,570,716	276,229,014	62,341,702	697,618
2. CFE Not Listed	30,725,000	30,725,000		
3. Bendix AIS - Not Listed	20,600,000	20,600,000		
4.				
5.				
6.				
Indirect Costs	20,368,739	13,966,595	6,402,144	138,510
Overhead Costs	71,140,132	33,021,316	38,118,816	1,351,731
Totals	481,404,587	374,541,925	106,862,662	2,188,059
Percents	100.0 %	77.8 %	22.2 %	.5 %

1. $ Value Committed/ 2. Percent

		TOTAL	LARGE	SMALL	MBE
Quarter:	1. 2.				
Quarter:	1. 2.				
Quarter:	1. 2.				
Quarter:	1. 2.				
Quarter:	1. 2.				
Quarter:	1. 2.				

Mr. MITCHELL. Mr. Daub.

Mr. DAUB. Let me get a quick clarification from you, "We don't like it either." I want to be sure the record reflects not the reading of that in the sense of just the words printed on the page.

Mr. BOYLE. No.

Mr. DAUB. Do you mean you would like to have them higher but you can't find the contractor, or you don't like, period, to have to even set these goals.

Mr. BOYLE. No.

Mr. DAUB. I mean you have to tell us for sure just what you mean by that.

Mr. BOYLE. I would definitely prefer to have higher percentages, and we are definitely striving for that. I thank you for the clarification.

Mr. DAUB. I thought it might be in your interest.

I want to point out for the record that in the statement, Mr. Boyle, that you offered to the committee, appended to it is a hand-delivered letter dated April 4, signed by Dennis P. Sharon, to which are appended evidently in response to questions the 1981, 1982, and 1983 figures for purchase orders to small/small and disadvantaged percentages relative to, and dollar values of, purchase orders to small and small disadvantaged businesses for 1981, 1982, and 1983.

That may satisfy part of the chairman's question, but I think I find missing from those figures and, No. 2 the breakout of small disadvantaged from the small business. I know you may have gotten the right message, but I wanted to be sure that that is the data at least that I am interested in, and may have been what the chairman was pointing to.

Mr. BOYLE. I understood the chairman's request to break out 1981, 1982, and 1983, the disadvantaged dollars.

Mr. DAUB. Right.

I think it is as well to be noted that an addition appended to your testimony is a letter signed by J.F. McDonnell, president, that outlines procurement from small business, small disadvantaged business, and business in labor surplus areas.

Mr. BOYLE. Yes.

Mr. DAUB. That is another sore point with me. But the fact of the matter is that you do have a corporate policy from the top.

Mr. BOYLE. Yes, we do.

Mr. DAUB. I want that noted for the record.

I, too, with the giant amount of business that you do, am delighted that you don't like the low percentages. I am not one, if you have listened to my commentary in the first two hearings or with the previous panel, to think that if we quantify in percentage, dollars or percentages, that we have ended up maybe dealing with a little more than the bones and not the meat.

The learning curve is the problem, the high-tech problem, really, that it is in the best interest of large corporate activity where you will be able to assemble the expertise on the soft side instead of the hard side to help the Government and the taxpayers of this country, particularly in the defense area, so, as a result 20 years from now, looking at this cycle, you, and I, and Government in general and the people are going to need as many people as we can who learned and developed expertise to satisfy the broad sense of fairness as we apply our tax dollars for healthy economies and healthy technical and defense capability. Your company has a marvelous record.

Would you want us to go to an overall corporate kind of a goal as well as individual contract-by-contract goals? Is there any merit to that, or are you happy the way things are?

Mr. BOYLE. I would prefer to go to an overall goal.

Mr. DAUB. Why?

Mr. BOYLE. In the administration of what we are living under now when we set the goals, the administrators who are coming in look at them as tight firm, negotiated figures that we have to live by. They are not goals to them. We are being threatened with noncompliance if we are underneath our figures, and we are also being threatened to be in noncompliance if we overexceed them. So I think that if we have corporate goals to be administered and looked at at the end of the year, it will be a lot easier for everybody in the administrative function.

Mr. DAUB. Do you think more small, disadvantaged firms will have opportunity as a result of that, or would it provide an escape hatch for the avoidance of some of the intent of the law?

Mr. BOYLE. I don't think it affects it one way.

Mr. DAUB. Is the $500,000 limit in your particular set of businesses that report to you too high, too low, or OK? How do you view that?

Mr. BOYLE. Ridiculously low.

Mr. DAUB. In your own opinion, because of what, the paperwork?

Mr. BOYLE. No; it is because of the size of our contracts as such. If we get a little contract in that area, there may not be any or very small dollar values that actually go out on procurements as such. Then we still have to file a form with you people.

Mr. DAUB. That is what I meant, that administratively it is just burdensome, but beyond that, in terms of getting the technical activity you need accomplished, is that figure a handicap?

Mr. BOYLE. No.

Mr. DAUB. All right.

Do you have any compliance problems? You just said now that you could be over and get in trouble or you could be under and get in trouble. Could you elaborate on that a little bit?

Mr. BOYLE. The way we are being administered now is that quarterly, the SBA man plus the Government small business compliance individual comes into our plant and looks at every one of our plans as such. A corporation our size, that is, hundreds of plans that we have to have prepared to be ready for this review by the Government. What these individuals want to see is the dollars we have spent on each and every individual contract and its association with the individual plan to show where we are, how close we are to being in compliance, and the reasons why we are exceeding or underexceeding it.

Mr. DAUB. When you said $500,000 was too small, I want to be sure I understand what you really mean by that. What is the average size of your contracts then to give you the feeling that $500,000 is a lot of money, too.

Mr. BOYLE. It would be very, very high.

Mr. **Daub**. Billions?

Mr. **Boyle**. Oh, no, not the average.

Mr. **Daub**. Millions?

Mr. **Boyle**. Yes.

Mr. **Daub**. $10 million, or $15 million?

Mr. **Boyle**. As high as that.

Mr. **Daub**. $10 million?

Mr. **Boyle**. Yes.

Mr. **Daub**. You are in the hardware business, too, when you build that aircraft. What would be a cutoff point, $1 million?

Mr. **Boyle**. I would say $5 million.

Mr. **Daub**. $5 million.

Mr. **Boyle**. One of our problems is that when we get a contract that size, a lot of that is kept in-house.

Mr. **Daub**. In your particular kind of a business.

Mr. **Boyle**. Yes, in our business.

Mr. **Daub**. So the intent of the law says to look for the subcontracting opportunity.

Mr. **Boyle**. Yes.

Mr. **Daub**. And you don't really even get that far, right, because it is all in-house? Is that what you are saying? I mean, you look for it, but it will be de minimis because it is not going to be there, right?

Mr. **Boyle**. That is right.

Mr. **Daub**. As you view it. OK.

Are there monitoring problems inside your company as a result of the right-hand/left-hand, you know, this agency says this and this agency says that? Do you have a monitoring problem at all? You talked about compliance and penalty. Are you able to successfully monitor your contracts relative to your percentage? A lot of your work is cost-plus, right?

Mr. **Boyle**. No.

Mr. **Daub**. It is not any more?

Mr. **Boyle**. No.

Mr. **Daub**. Now it is all relative to a fixed price and percentage, and you are done and it comes out of your pocket if you don't make it. So the percentage you talked about a minute ago, instead of the dollar amount, in answer to the chairman's question, creates a major problem for you then.

Do you have any trouble finding the small and disadvantaged business that you may need?

Mr. **Boyle**. Yes, and since the creation of Public Law 95-507, we have appointed an administrator of minority business. He was the same individual in my speech that I gave you who was awarded the Advocate of the Year in Missouri. Through his efforts, it has improved substantially, but it is still a problem.

Mr. **Daub**. When you listed in 1983 your figures for the number of purchase orders, and then the number of small disadvantaged concerns, was that a repetitive kind of thing? Could you recall from your memory right now, or maybe furnish for the record, where there are only, say, some smaller factor of businesses that got those 4,000 orders? In other words, are you dealing with the same group of disadvantaged small businesses year in and year out, or is that number growing? Are you following what I am trying to get at?

Mr. Boyle. Yes.

Mr. Daub. Did you give 2,000 of those purchase orders to one small business or to a handful compared to the total number of purchase orders?

Mr. Boyle. No. Since enactment of the law, our data base——

Mr. Daub. The availability of businesses to deal with.

Mr. Boyle. Our listing of minority businesses has increased substantially. So there is no doubt in my mind we are dealing with a lot more and different minority firms since the enactment of this act.

Mr. Daub. That is good news. I am glad to hear that.

Mr. Chairman, I received answers to my questions. Thank you very much.

Thank you very much for your testimony here today.

Mr. Boyle. Thank you.

Mr. Mitchell. Thank you.

You must put up with me because I am very impatient. I just want to see small disadvantaged businesses participating fully as quickly as possible. It is out of my impatience, I suppose, that I have expressed such dissatisfaction.

Staff just brought to my attention your small business newsletter, which is a nice publication.

Mr. Boyle. Thank you, Mr. Chairman.

Mr. Mitchell. You have nine pages in which you list contracts, \$3 million plus, \$2 million plus, \$1 million plus, \$500,000 plus, \$200,000 plus, right down the line, \$50,000 plus down to \$10,000. There are about 45 companies on each page. So you are dealing with a substantial number of contracts.

Mr. Boyle. Yes, we are, Mr. Chairman.

Mr. Mitchell. You have an asterisk indicating small and disadvantaged businesses. I just went through this and, on nine of these pages with about 45 companies per page, we end up with 14, just 14, across the board.

That is not out of my impatience. That is not very good news for me.

Thank you very much for being with us and for taking the time to give us some valuable testimony.

Mr. Boyle. Thank you.

Mr. Mitchell. Thank you.

This hearing is now adjourned.

[Whereupon, at 12:15 p.m., the subcommittee was adjourned, to reconvene subject to call of the Chair.]

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